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Canadian elections

Agenda set by extremists in the West and Quebec

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Attacks on Serb refugees block road to Europe

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Ukraine

Test of Russia's transformation

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FT WEEKEND

The lost grey tribe

TOMORROW

World Business Newspaper http://www.FT.com FRIDAY MAY 30 1997

● *The fourth part of our new 12-part series, FT Mastering Finance, appears on Monday. Topics include exchange rate exposure, hedging, spin-offs and new equity issues.*

Air France back in profit despite strikes and costs

Air France returned to the black for the first time in the 1990s, in spite of rising fuel costs and the impact of strikes. The state-controlled carrier reported annual net profits of FFr210.6m ($36.7m) against a FFr2.87bn loss in the previous 12 months. Air France had run up losses of more than FFr14bn in the previous four years. Net profits for the entire Air France group, including its tourism and information activities, reached FFr94m compared with a 1995-96 loss of FFr2.25bn. Page 23

Brussels deal on salmon blocked: A row in the European Commission blocked a proposed deal with Norway to avert the imposition of anti-dumping duties on imports of Norwegian salmon. The 20 commissioners are to meet on Sunday in an effort to reach a last-minute agreement. Page 4

Final plea from Eurotunnel chairman: Eurotunnel chairman Patrick Ponsolle made a final appeal to shareholders to approve a financial restructuring for the Channel tunnel rail link operator. Page 23; Lex, Page 22

Nato split over new members: Divisions over which east European countries should be invited to join Nato became clear as the US indicated it wished to restrict entrants to Poland, Hungary and the Czech Republic. Page 3

Damages for Singapore politicians

Singapore senior minister Lee Kuan Yew (left), prime minister Goh Chok Tong and nine other People's Action party members were awarded a record S$8.08m ($5.64m) in libel damages by a Singapore court after a series of actions brought against opposition politician Tang Liang Hong, who called them "liars". Mr Tang did not defend himself, having fled the country shortly after the general election in January, alleging threats to his life. Page 22

Croats attack returning Serbs: Serb refugees trying to go back to their pre-war homes in Croatia have been driven back by Croats in a campaign that could damage Zagreb's hopes of closer integration into Europe. Page 3

Indonesian ruling party set for win: Indonesia's ruling party, Golkar, appeared poised to secure a landslide victory in a general election marred by the violent death of at least 14 people in the occupied territory of East Timor. Page 22; Editorial Comment, Page 21

Newest red chip trebles in value: Beijing Enterprises, investment arm of the Beijing municipal government and Hong Kong's newest red chip, more than trebled in value on its trading debut. Page 23; Lex, Page 22

World Bank warns of fresh crisis: The use of government guarantees to help finance private projects in Latin America and Asia risks causing a fresh debt crisis, the World Bank warned. Page 6; Capital inflows to rise, Page 4

Fears over Falkland listing: Falkland Island Group, the Falklands' largest private company, is to be separately listed on the London stock exchange, sparking fears among the British territory's 2,200 inhabitants that Argentine companies could purchase shares. Page 23

Handover Barbie hits Hong Kong: An edition of seven diamond-studded dolls decked in Ch'ing dynasty imperial robes and named Handover Barbie will be auctioned today in Hong Kong. Bids will start at HK$50,000 (US$6,450). Page 22

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■ STOCK MARKET INDICES

New York lunchtime		
Dow Jones Ind Av	7,334.90	(-22.32)
NASDAQ Composite	1,409.38	(-0.50)
Europe and Far East		
CAC40	2,579.24	(-3.93)
DAX	(c)	
FTSE 100	4,672.3	(-5.2)
Nikkei	20,312.23	(-39.11)

■ US LUNCHTIME RATES

Federal Funds	5½%
3-mth Treas Bill: Yld	5.041%
Long Bond	95⅜
Yield	6.998%

■ OTHER RATES

UK: 3-mth Interbank	6⅞%	(6⅞%)
UK: 10 yr Gilt	100⅞	(100⅝)
France: 10 yr OAT	97.30	(97.57)
Germany: 10 yr Bund	(c)	(100.69)
Japan: 10 yr JGB	102.522	(102.14)

■ NORTH SEA OIL (Argus)

Brent Dated	$19.35	(19.37)

■ GOLD

New York: Comex		
(June)	$345.9	(345.3)
London:		
close	$344.15	(same)

■ DOLLAR

New York: lunchtime		
£	1.641	
DM	1.69475	
FFr	5.73255	
SFr	1.4095	
Y	115.935	
London:		
£	1.6397	(1.6382)
DM	1.6967	(1.6966)
FFr	5.7562	(5.736)
SFr	1.4095	(1.4156)
Y	115.97	(115.445)
Tokyo close	Y 115.5	

■ STERLING

DM	2.782	(2.7796)

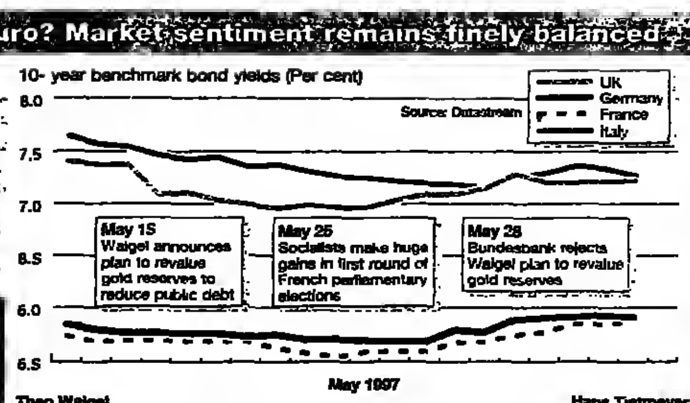
Opposition parties demand Waigel's resignation over Bundesbank gold revaluation

German row over Emu deepens

By Peter Norman in Bonn, Andrew Fisher in Frankfurt and Wolfgang Münchau in London

Weak euro or no euro? Market sentiment remains finely balanced

Theo Waigel



Hans Tietmeyer

Mr Theo Waigel, Germany's finance minister, yesterday fended off fierce opposition pressure to resign, as economists warned that open conflict between the Bonn government and the Bundesbank over its gold reserves increased the chances of a delay to European economic and monetary union.

The opposition Social Democrat and Green parties said they would seek a vote of no confidence against Mr Waigel in the Bundestag, the lower house of parliament, next week, with the aim of forcing him to step down.

"The man is no longer bearable," said Mr Rudolf Scharping, SPD leader in the Bundestag. "The government's action is damaging international credibility, the thing we need most."

Although senior government figures rallied behind the embattled finance minister yesterday, his handling of the planned revaluation of the Bundesbank's 95m ounces of gold reserves to help Germany qualify for Emu also earned criticism from within Chancellor Helmut Kohl's Christian Democratic Union.

Mr Waigel plans to revalue the gold this year and use some of the proceeds to bring Germany's deficit below 3 per cent of gross domestic product, one of the targets the Maastricht treaty sets for Emu membership. But on Wednesday, the Bundesbank rejected the plan, saying it could undermine the "credibility and stability" of Emu.

Mr Kurt Biedenkopf, prime minister of Saxony and one of the few CDU politicians ever to criticise the government, said the idea threatened the independence of the Bundesbank and of the planned European central bank.

Mr Waigel, meanwhile, brushed aside calls for him to quit as "something I hear every week". He insisted his plans would neither harm the Bundesbank's status nor undermine German monetary stability. According to the finance ministry, the government would seek an extraordinary profit of only DM20bn from the gold revaluation to boost its finances in stages, whereas the gold was currently valued about DM40bn below its market price.

Market strategists were split over whether the Bundesbank's stance would lead to a delay in Emu or whether the result would mean a weak single currency.

Mr Gunther Thuman, head of Emu co-ordination at Salomon Brothers, the investment bank, and a former senior official in the German economics ministry, said: "There are two schools of thought now, one is a delay [of Emu], and the other is a softening [of the criteria]." He expected Emu to go ahead.

The D-Mark yesterday moved little against other currencies. Against the dollar, it closed at DM1.6967, virtually unchanged from the previous day's close. Analysts said this lack of movement reflected uncertainty, rather than stable conditions.

In Germany, where financial markets were closed yesterday, economists said the conflict could make it harder to win support for the single currency from a sceptical German public, and raised the possibility of renewed turbulence in bond and currency markets.

Emu reports, Page 2; Storm-tossed waters, Page 21; Lex, Page 22; World stocks, Page 44

Sportswear stocks dive after Nike gives profit warning

By John Authers in New York

Shares tumbled across the US athletic sportswear sector yesterday after Nike, the world's largest sports shoe manufacturer, saw its shares fall in early trading about 14 per cent after a profits warning.

Nike, based in Oregon, said earnings for its current financial quarter, which runs to the end of this month, would be between 51 and 56 cents per share – far below analysts' expectations.

By midday, its shares were down $8⅞ at $55. The Nike announcement helped Reebok to fall $1⅞ to $39⅞, and Converse $⅞ to $20⅝, while Woolworth, which owns Foot Locker, one of the largest sports shoe retailers, fell $1 to $23½.

Nike blamed a range of factors, with a one-time $18m charge for closing a US factory accounting for a drop of 4 cents in earnings per share. The bulk of the shortfall is attributable to lower revenues.

Attention was drawn in particular to Nike's admission that cancellations of orders by US retailers had risen. The company also cited problems with the timing of shipments to Europe and product shortages.

Ms Shelly Hale Young, a senior analyst with Hambrecht & Quist, the San Francisco-based investment bank, said: "Nike is coming off a phenomenal year of unnatural and unsustainable growth and there had to be a slowdown. It's just coming much more rapidly and it's more dramatic than investors had believed."

Nike's earnings for the quarter ending in November last year had shown an 81 per cent rise over the same quarter of 1995, and orders for the first quarter of this year were 54 per cent higher than for the same quarter of 1996.

Ms Young added that the volatile domestic market was the single most important factor for Nike over the next nine months, but she suggested the impact of the announcement on the rest of the sector may have been overstated: "This announcement has some influence on the rest of the US market, but I don't think you can universally say that the market is in a tailspin."

World stocks, Page 44

Merry wives: Hillary Clinton, left, and Cherie Blair attending a performance of Henry V at the Globe Theatre in London

DT in search for strategic investor

By Nicholas Denton and Alan Cane in London

Deutsche Telekom, Germany's national telecommunications operator, is seeking a strategic investor such as France Telecom or Sprint of the US.

The move could ease Germany's budget deficit ahead of European monetary union.

The prospective deal, revealed in London yesterday by Mr Ron Sommer, DT chairman, is designed to raise funds without going to the markets hot on the heels of last December's DM20bn ($11.70bn) initial public offering.

Mr Sommer said the government, which still has a 74 per cent stake worth nearly DM79bn at yesterday's DM38.78 closing price, was constrained from selling any of its shares on the market before 2000.

"But it can go outside the financial markets provided it has the agreement of DT's management. This is a key understanding between the government and us."

A private transaction would relieve the fears of institutional investors who marked DT shares down 3 per cent this week on rumours that the government planned to sell some of its shares in the markets ahead of schedule.

Leading the list of possible buyers are France Telecom and Sprint, DT's international allies in Global One.

France Telecom and DT each already have a 10 per cent stake in the US long-distance carrier.

France Telecom said yesterday it might exchange shares with DT, but only after the French state operator's privatisation, which the French elections have thrown into doubt. Sprint said it had "not really considered" buying a stake in DT.

Mr Sommer said DT might look outside Global One for investors, but ruled out competitors such as Veba, the German conglomerate that has recently entered the telecoms business. NTT, the Japanese national operator, would provide both financial resources and presence in the Far East, analysts said.

Before DT was privatised, the German government undertook to hold the shares it retained until 2000 so as not to flood the stock market and to give precedence to any offering designed to raise funds for DT itself.

But on Tuesday, the German posts and telecommunications minister said the government planned to advance the schedule as one of a series of measures to bring Germany's budget deficit below 3 per cent of gross domestic product this year and so qualify the country for participation in European monetary union in 1999. DT shares fell 3.25 per cent after his remarks.

Continued on Page 22

Clinton and Blair in jobs initiative

Leaders aim to drive G8 agenda

By David Wighton in London

US president Bill Clinton and British prime minister Tony Blair yesterday launched a joint initiative on job creation, after a day of talks in London which officials hailed as the start of a new chapter in the "special relationship" between the two countries.

The leaders announced that the UK would host a special Group of Eight conference early next year to draw up programmes for boosting employment without destroying social cohesion.

Under the agreement the two governments will use their consecutive presidencies of the G8 to promote a shared agenda based on investment in education, flexible labour markets, welfare reform and partnership with business.

At a press conference in Downing Street, Mr Blair said he and the US president represented a "new generation [of] leadership" for a new era.

He added: "This is the generation that claims education, skills and technology as the instruments of economic prosperity and personal fulfilment, not old battles between state and market."

Mr Blair said Europe needed to learn from America's success in job creation while Mr Clinton conceded that some of that success had been bought at the cost of rising crime and social dislocation.

Both leaders stressed that a strengthened relationship between the UK and US was not incompatible with Britain taking a bigger role in Europe. "By being strong in Europe, we will further strengthen our relations with the US," said Mr

Continued on Page 22
Clinton ceasefire call, Page 7

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French and German manoeuvres to meet entry criteria lead to uncertainty over timetable

Odds shorten over possible Emu delay

By Lionel Barber in Brussels

In the space of a fortnight, the political odds on economic and monetary union going ahead on schedule on January 1 1999 have shifted from near certainty to the point where the word "delay" is no longer taboo.

This was the initial verdict among monetary officials and diplomats yesterday as they surveyed this week's dramatic political events in France and Germany.

Paradoxically, the turnaround in sentiment stems largely from two manoeuvres by the French and German governments originally intended to remove all doubts about the Emu timetable.

First came President Jacques Chirac's decision to call snap elections, ostensibly to clear the decks for a fresb round of austerity to guarantee thet France will meet the Maastricht treaty's budget deficit target of 3 per cent of gross domestic product in 1997.

Next, Chancellor Helmnt Kohl approved a plan to revalue the gold and foreign exchange reserves of the Bundesbank, a desperate move to plug holes in the public finances in 1997 caused by slow growth and record unemployment.

The first sign of trouble came when French voters delivered a first-round rebuff to the centre-right Gaullist coalition, forcing Mr Chirac to sacrifice Mr Alain Juppé, the prime minister. The opposition Socialist party are bidding for an even bigger upset in Sunday's second round poll.

Even a narrow centre-right victory would scarcely amount to an endorsement of President Chirac's appeal for a vote of confidence in the fiscal tightening needed for France to qualify for Emu. The Socialists are even more equivocal.

Mr Lionel Jospin, the Socialist leader, says he supports the aingle currency, but his terms look unpalatable to Germany. He wants no more fiscal tightening, a looser interpretation of the Maastricht treaty, and initial entry for neighbouring Spain and Italy.

The cracks in the French political establishment over Emu are mirrored by divisions in Germany which were laid bare this week when the Bundesbank – guardian of monetary stability and fiscal rectitude – condemned the Bonn government's gold revaluation plan.

The Bundesbank said that the gold ploy violated the government's pledge that the Maastricht criteria would be respected in a manner both credible and sustainable; and it warned that Mr Kohl was putting public confidence in the stability of the single currency at risk.

The stand-off in *Germany* highlights the tensions in the Emu project between the politicians, led by Mr Kohl, who argue that an Emu delay would put European integration and Germany's security at risk; and the central banking community which is insisting on the strictest interpretation of the criteria to ensure a stable launch.

As one central banker remarked yesterday: "The choice is clear: it is between the rational approach and the irrational approach."

The first option is for Mr Kohl to back down in the *face* of a public backlash orchestrated by the Bundesbank which is already seen in countries such as Italy and Spain as hostile to their participation in Emu. This would force the coalition government to find alternative ways of reducing the deficit, either through spending cuts or tax rises.

The second option is for Mr Kohl to plough ahead regardless of the Bundesbank's objections in a massive demonstration of Germany's political commitment to Emu. But as one monetary official said yesterday: this would signal a totally *different political approach.*

"Theo Waigel [finance minster] and Jürgen Stark have spent hours lecturing their colleagues on the need for fiscal discipline," says the official, "now they are doing the very opposite."

The risk would be a move out of the D-Mark into the dollar, a backlash by the German public already jittery about giving up their currency, and challenges in the German constitutional court.

It would, however, pave the way for EU leaders next spring to choose a broad monetary union among countries which, on a generous interpretation, could be *said* to be "convergent" with the Maastricht targets on inflation, budget deficits, debt, and exchange rates.

"Italy would be included in this scenario. But the Dutch would be very unhappy about giving up their guilder if the D-Mark turned into casino money," said one central banker.

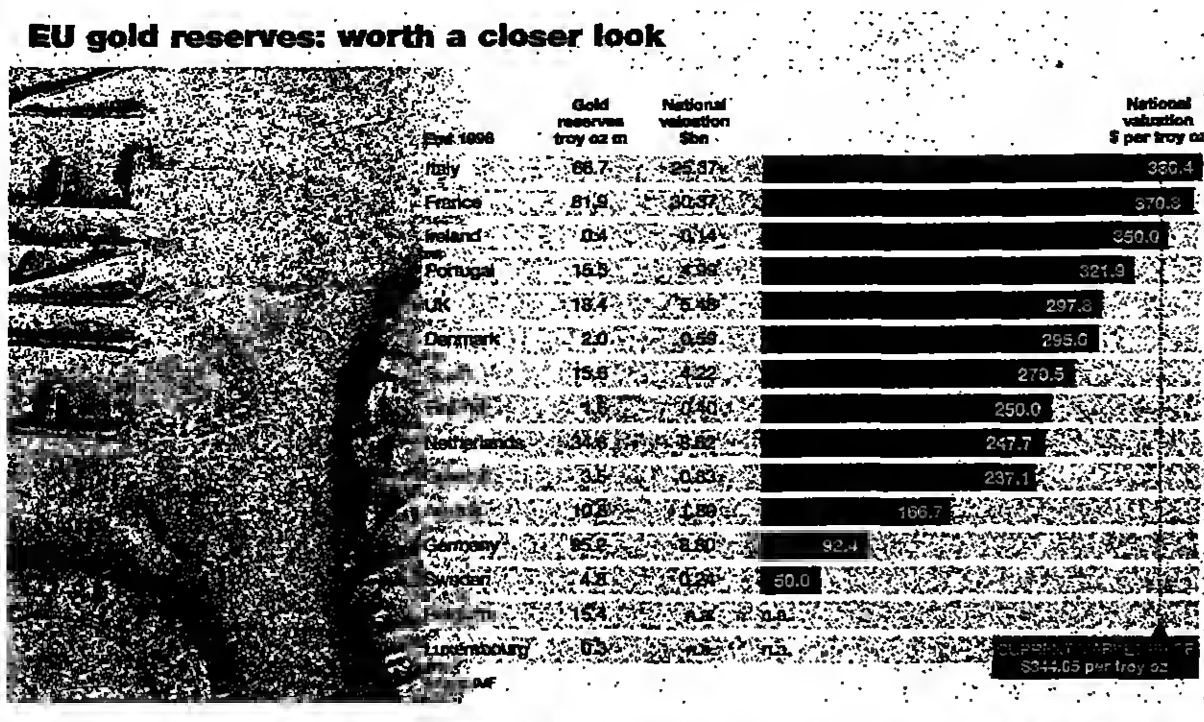
The third scenario is a delay. One informed hedge fund manager said yesterday that the risks of a slippage in the timetable had increased in the past fortnight from "15 per cent to 40 per cent"; but he added that the possibility of a "constructive delay" which Mr Alexandre Lamfalussy, outgoing *president of* the European Monetary Institute mooted last year, had passed.

This view is held in the European Commission which repeated yesterday that Emu is "irreversible". If this is true, the stakes in the Emu project have been raised so high that there is no way back, however perilous the path on *which Chancellor Kohl and* President Chirac insist they are set.

Row creates dilemma for financial markets

By Wolfgang Münchau, Economics Correspondent

EU gold reserves: worth a closer look



Tbe row between tbe Bundesbank and the German government over the valuation of gold and dollar reserves is beginning to alter expectations of European economic and monetary union (Emu) in the financial markets.

The dispute has reshuffled the various Emu scenarios into two broad groups: one suggests that it will be delayed – or scrapped altogether – the other that Emn is going to be a soft-currency zone. The two scenarios pose a dilemma for the financial markets because they have diametrically opposite implications for currencies. This explains why the markets hardly moved yesterday.

Ms Alison Cottrell, executive director of Paine Webber in London, said the dispute will "heighten concerns over monetary tightening, adding to tbe strains on intra-EU political relations. The result, then, of the German coalition's bungling: an increased risk of no Emu in 1999, no Kohl in 1998, and a firmer D-Mark in 1997."

Mr David Marsh, director of European strategy at Robert Fleming Securities, said: "The message from the Bundesbank is clear. If their words of warning over Emu are ignored by Bonn, then Kohl himself will be in political peril over an unpopular project that many of the German electorate would like to see buried."

Tbe political damage caused by the gold dispute has strengthened expectations of a Social Democrat-Green victory in next year's federal elections. This would mean that the UK, possibly France, Italy and Germany would all have left-of-centre governments with a bent towards looser fiscal policies.

Mr Ernst Welteke, a member of the Bundesbank's central council and an SPD member, argues the government sbould bave stressed the notion of sustainability in public sector finance, instead of focusing on literal interpretation of the Maastricht treaty's stipulation that public sector deficits sbould not exceed 3 per cent of gross domestic product.

A less literal interpretation would increase the chances of a wider membership base than is currently expected in financial markets, and certainly in Germany. And this could pose other policy dilemmas: with a weak currency, the future European central bank may drive up interest rates in support of the euro, but this would be highly controversial in what is likely to be a still early phase in the economic cycle.

The risk of a soft euro is that it may face a backlash in the German institutions, the Bundesbank, the Bundestag and possibly the constitutional court.

It is this uncertainty – rather than expectations of a U-turn by Chancellor Helmut Kohl – that gives rise to the expectations that Emu itself is under threat. Many believe that a simpla delay is *difficult to orchestrate and* that the union is more likely to be scrapped if it fails to start on time in 1999.

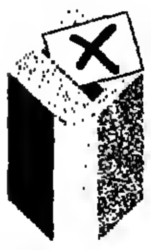
Ironically, it was not so much *Mr Theo Waigel's* decision to revalue the reserves, which gave rise to this fracas: Germany's gold reserves are extremely undervalued by comparison with the reserves of EU central banks. It was the timing of the announcement – on the day when it emerged that Germany would face a DM18bn ($10.5bn) tax revenue shortfall – and Mr Waigel's scheme to use the revaluation profits for deficit reduction that caused accusations of creative accounting, and that has destroyed Germany's moral high ground in the run-up.

In the financial markets, Germany's credibility has suffered immensely over the last few days.

Gold reserves row, Page 21
Lex, Page 22

Left and right attack Séguin-Madelin 'team'

By David Buchan in Paris



FRENCH ELECTIONS

The French centre-right's new shadow leadership of Mr Philippe Séguin and Mr Alain Madelin was yesterday attacked by the left, and sniped at by some of their colleagues on the right.

This is a blow to President Jacques Chirac's attempt to promote these two men as unifiers of the centre-right's campaign, shattered by Mr Alain Juppé's decision to step down as prime minister. All the signs are that, if the centre-right retains power in Sunday's election, Mr Chirac would name the socially-minded Mr Séguin prime minister and give the free-marketeer Mr Madelin back the finance job be once held.

Mr Lionel Jospin, the *Socialist leader who stands* to become prime minister if the left wins, yesterday dismissed the Séguin-Madelin tandem as "an impossible couple", claiming it combined the worst features of both men with the anti-Europeanism of Mr Séguin and Mr Madelin's lack of social concern.

Far more damaging criticism came from Mr François Léotard, president of the UDF party, which is part of the ruling coalition. "You can't be both a liberal skylark and a big piece of socialist horsemeat. It does not work," he said on radio yesterday. The skylark-horse metaphor is a French expression for an unworkable duo.

Mr Raymond Barre, mayor of Lyons and a former centrist prime minister, was no *less scathing about* Mr Séguin's call for the future European Central Bank to make job creation its top priority. This was "fine for election meetings", Mr Barre said on Lyons radio, but central banks were supposed to safeguard monetary stability rather than "printing money to sustain economic activity and jobs".

While delighted at the continued backbiting within the right, Mr *Jospin is finding* it ever harder to make his economic programmes more credible and responsible without losing his Commnnist and Green allies. The Communists want an immediate rise in the minimum wage and the Greens an immediate cut in working hours.

Mr Jospin said in a Le Monde interview: "I bave always said that i would act over time." In reference to the way that the Socialist government of the early 1980s had to introduce austerity to curb inflation, he said, "I don't want a flare-up that would have to be doused by the cold water of realism and disillusion."

The reduction in the working week from 39 to 35 hours would not be immediate "bnt over *three* years", he *said.*

In advance of a big Paris rally last night, Mr Jean-Marie Le Pen said in an interview yesterday that his far-right National Front supporters should cast their votes on Sunday against "purveyors of immigration and Euromondialists".

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Euro doubts hamper Italian budget deal

by Robert Graham in Rome

Doubts about the timetable for creating the European single currency have complicated last-minute efforts by Italy's centre-left government to reach agreement on plans to reduce the budget deficit.

The possibility of a delay in tbe introduction of the euro as a result of tbe row between the German government and the Bundeshank was yesterday seized upon by the hardliners in Reconstructed Communism (RC). Mr Nerio Nesi, the economic spokesman for RC, said the German experience showed it made no sense "for Italy to arrive dead in the Europe of Maastricht".

The support oI the neo-communists is essential to the government's parliamentary majority and they are the ones – along with the trade unions – holding out *against cuts in pensions* and social welfare spending.

The government regards such cuts as essential to demonstrate to its EU partners that Italy can carry out structural changes in public spending to bring the 1998 budget deficit below the 3 per cent of gross domestic product laid down by the Maastricht treaty.

Other parties in the centre-left Olive Tree coalition yesterday took comfort from the German row for different reasons. There was consensus that Germany could no longer preach to Italy about using accountancy tricks to meet the deficit target.

Mr Giorgio La Malfa, a Euro-MP and the Republican party leader, said it would be more difficult to exclnda Italy from the first group of countries joining the singla curreocy, even though this would mean a softer euro and possible delays in its introduction.

The government is committed to unveiling its three-year macro-economic programme today, having already been delayed by more than a week. The plan will contain deficit, growth and inflation targets through to the year 2000, while also giving the broad lines of the 1998 budget.

These will form the basis for Italy'a convergence plan, which is late In being presented to Brussels.

The economic team is understood to be aiming for a deficit equivalent to 2.8 per cent of GDP next year, falling to 2.4 per cent in 1999 and then 1.8 per cent in 2000. The economy is forecast to grow 2 per cent in 1998, picking up only modestly from this year's 1.2 per cent but rising to 2.7 per cent by the end of the three years. Inflation is targeted at 2 per cent *in 1998, falling* to an eventual 1.5 per cent.

Last night several economists said the government's calculations could be undermined by the trend in interest rates, as a result of either a delay in the euro or the markets perceiving the new currency to be "soft".

Earlier this week the government had predicted the cost of servicing Italy's huge debt stock would fall to L175,000bn ($104bn) in 1998, against L200,000bn this year, on the basis of a further fall in rates. If this fails to materialise, then the budgetary package will have to be bigger. The rightwing opposition believes it should anyway ba almost double tha planned L25,000bn.

If RC and the unions refuse to drop their opposition to the government's plans for cuts in pensions and welfare spending, the package will not look very convincing.

Czechs sceptical over second Klaus austerity plan

Spending soars in expectation of further slide in koruna □ Unions oppose more pay curbs

Mr Václav Klaus, the Czech prime minister, was yesterday fighting to convince his sceptical people that a frank admission of the economy's problems accompanying his announcement of the second austerity package in two months was not too little, *too late.*

As markets reacted coolly to the lack of detail contained in Mr Klaus's proposals for fresh spending cuts and wage controls on Wednesday night, President Václav Havel lameoted the prime minister's failure to announce any longer-term measures besides those to tackle an immediate short term economic crisis.

Trade union leaders signalled they were not *prepared to accept further* wage curbs on top of those announced last month without scrapping moves to liberalise rents and energy prices. During last year's election campaign Mr Klaus told voters they could expect a doubling of nominal wages hy 2000.

Ordinary Czechs, meanwhile, continued a spending spree, rushing to buy consumer goods and other imported items in expecta*tion* of a *further slide in* the value of the koruna.

Tbe currency has fallen about 10 per cent against the D-Mark and US dollar since *being* floated earlier this week, and Mr Klaus hinted during his announcement on Wednesday that it should fall further. The koruna strengthened slightly on *for*eign exchange markets yesterday, but dealers said trading was nervous.

While the prime minister's *diagnosis* of the *Czech econ*omy's problems – including an overvalued currency, lack of industrial restructuring, inefficient banks, and poor market regulation – was welcomed, the success of this latest austerity package depends on whether the public responds to his call for a *period of sacrifice.*

"If you want to push through a lot of painful measures you have to negotiate, and the bargaining power of *this government is* very weak at the moment," said Mr Jiří Krovak, chief economist at WoodCommerz in Prague. "Any other government would be in a better bargaining position."

Recent polls indicate two thirds of the electorate do not trust Mr Klaus and the government, especially his own Civic Democratic party, the biggest coalition partner.

Mr David Lubin, emerging markets analyst at HSBC *Markets* in London, said the fact that Mr Klaus did not have a stable majority in parliament "might make the Czech adjustment programme more complicated".

Mr Klaus's policy change emerged after several weeks of political paralysis and recent speculative assaults on the koruna, which necessitated the decision to float it.

It was accompanied by final agreement on bringing new faces into his cabinet. The new ministers, who include Mr Karel Kühnl and Mr Jiří Gruša, currently ambassadors in London and Bonn respectively, represent a shift in power to a younger generation with a technocratic bent.

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Vincent Boland

EUROPEAN NEWS DIGEST

Early Turkish poll likely

Turkey's junior government coalition partner said *yesterday it would seek early* elections in an effort to pre-empt opposition moves to bring down the year-old coalition. Mrs Tansu Çiller, the deputy prime minister, said her True Path party had agreed to press for early polls, not due until 2000.

Negotiations between the *True Path and the pro-Islamic* Welfare party, which leads the coalition, over a date for an early poll are expected to continue over the next few days. The coalition has been under increasing pressure from the military, political opposition and media who accuse Welfare of eroding Turkey's secular traditions.

Mrs Çiller is also reported to want to take over the premiership from Mr Necmettin Erbakan, Welfare's leader, in July, a year before the date agreed when they formed their alliance last June. *Kelly Couturier, Ankara*

French delay irks Brussels

Mr Karel Van Miert, the European Union's competition commissioner, is growing increasingly impatient at the French government's failure to submit details of its privatisation plan for Crédit Lyonnais, the state-owned banking group.

The plan was supposed to be submitted to the Brussels competition authorities earlier this year, after a series of crises had already delayed its submission last year. So far, Brussels has approved FFr49bn ($8.6bn) of state aid to the bank and the new plan rules out any fresh injection of taxpayers' money.

Yesterday, Mr Van Miert said the Commission had not seen anything yet and indicated that a change of government in France should not be allowed to slow proceedings further. "Wa need some time to do our job properly and I am really very concerned because we are near the deadline," he said. Ha wants to complete assessment of the plan by October. Approval should then allow the government to sell Crédit Lyonnais in the second half of next year. *Emma Tucker, Brussels*

Spanish soccer TV law

Spain's minority government yesterday scored a key victory in its battle against Grupo Prisa, the leading domestic media group, which wants to launch digital television with the offer of pay-per-view first division *football. The government pushed through a* parliamentary vote banning exclusive TV soccer rights, thanks to backing from the United Left coalition.

The controversial legislation on TV football, which was opposed by tha Catalan nationalists and the Socialist *party, deals a severe blow to Prisa's venture,* Canal Satélite Digital. It will revive allegations the government is trying to muzzla a media group it considers hostile.

Under the new law, all TV operators should have access to football broadcasts, and at least one league game a week must be screened free of charge. The legislation effectively breaks the virtual monopoly that Canal Satélite Digital had built up over top domestic soccer. The Socialist party said it would appeal to the constitutional tribunal because the government was "confiscating" the football acquired by Grupo Prisa and applying legislation retroactively. *Tom Burns, Madrid*

EU strictures on Slovakia

Mr Hans van den Broek, the European Union's external relations commissioner, expressed concern yesterday about recent political developments in Slovakia that culminated in the collapse of two referendums last weekend. He was speaking after talks in Bratislava with Mr Vladimír Mečiar, the prime minister.

More than 90 per cent of Slovaks boycotted the referendums after the government exploited a legal loophole to have a question on direct presidential elections deleted. The referendums, including one on Nato membership, were officially declared invalid.

However, Mr van den Broek stressed there was no threat to Slovakia's EU association agreement. A spokeswoman for Mr Mečiar said the prime minister had admitted Slovakia's democratic shortcomings, which have drawn international criticism. *Vincent Boland, Prague*

Malta replaces VAT

The Maltese parliament has passed a legislation replacing value-added tax with a 15 per cent import duty on products from the European Union. Non-EU imports will be subject to a levy of 35 per cent more. Service companies will also have to pay 5 per cent excise duty on turnover. The legislation leaves in place protective levies imposed on some 480 imported items that are also made *locally for the domestic market. Godfrey Grima, Valletta*

ECONOMIC WATCH

Dutch maintain growth

A "leap year effect" held back the headline rate of Dutch economic growth in the first *quarter of 1997* to a year-on-year rate of 2.1 per cent, the national statistics office reported yesterday. However, when figures are adjusted to eliminate the effect of the extra day in February 1996, gross domestic product is shown to have grown at an underlying year-on-year rate of about 3 per cent. The statistics office noted that this was in line with the pace of Dutch GDP growth in the second half of last year. The economy has performed more strongly than those of some of the larger European economies over the past year, with buoyant consumer spending providing the main thrust. While the growth of consumer spending is generally expected to slow this year, exports are expected to accelerate keep the overall growth rate up around the 3 per cent mark. Consumer spending rose by 2.7 per cent in the first quarter from a year earlier, the statistics office said. *Reuter, AFX, Voorburg*

OBITUARY
Fritz Leutwiler

Success in bank and business

Fritz Leutwiler, who has died at 72, was one of the leading central bankers of his time. He made his name running the Swiss National Bank for a decade, went on to be president of the Bank for International Settlements at the height of the third world debt crisis in the early 1980s, and then embarked on a successful career as an industrialist.

He was a conservative and decisive figure who realised at an early stage that central banks could no longer cloud their operations in secrecy. Like any other public bodies, they had a duty to explain their actions. And Leutwiler was fortunate in being a good communicator.

He joined the Swiss National Bank in 1952 and took over as president in 1974 when the Bretton Woods agreement on fixed exchange rates was falling apart. Leutwiler's decisive action in breaking the link with the US dollar led the way to the floating exchange rate regime.

It was a period of great uncertainty for the Swiss economy and Leutwiler made his mark by establishing a fresh monetary policy which suited the changed circumstances.

An SNB official described him yesterday as a "gifted manager with a highly developed intellectual capacity" for dealing with difficult problems.

He was the sort of public figure that Switzerland desperately needs now to debate the international criticism of the country's wartime record.

Leutwiler retired from the SNB in 1984 when many had hoped he would stay on for an other term. However, he wanted a fresh career, and spent two years piloting the BIS through the third world debt crisis.

He never claimed to have the solution, but he made sure the BIS arranged short-term bridging finance until one could be found.

In 1985 he took over as chairman of Brown, Boveri, one of the great names of Swiss industry, which had fallen on hard times.

But no sooner had he taken the job than be was recalled as an independent mediator between the South African government and foreign banks, which were on the point of withdrawing financial support. Once again, he showed his talent as a firm negotiator and helped maintain foreign financial support for South Africa at a particularly delicate time in its history.

Leutwiler's career as an industrialist was almost as successful as his time as a central banker. He quickly realised that if Brown, Boveri was to prosper it needed an international partner and some fresh management.

He was responsible for pushing through the merger with Sweden's Asea which led to the arrival of Percy Barnevik as chief executive and the creation of ABB, one of the world's top engineering companies.

Not all of Leutwiler's business initiatives met with the same success. He ended up on the wrong side in boardroom rows at Corange, the family-controlled pharmaceutical company, and also SGS, the Geneva-based international testing company.

However, he continued to have the ear of leading international politicians. Lady Thatcher, the former British prime minister, and Germany's Chancellor Helmut Kohl, for example, sent him as a secret envoy to press South Africa to free Nelson Mandela.

President Mandela later wrote to Leutwiler thanking him for performing the task "discreetly, effectively and without accepting payment or honours". It was the sort of tribute most central bankers would dearly love to receive but few deserve.

Croats slam 'open door' on returning Serbs

An increasingly restive international community is theatening to exact a price for Tudjman's failure to fulfil his promises on refugees, writes **Guy Dinmore**

Serb refugees trying to return to their pre-war homes in Croatia have been beaten and driven back by ethnic Croats in a concerted campaign that could hurt Zagreb's prospects of closer integration into Europe.

Human rights activists claim the violence reflects a hidden agenda by the Croatian government to create an ethnically pure state. Incidents heve erupted in spite of promises by President Franjo Tudjman that Serbs will be allowed back as full Croatian citizens.

The issue has serious ramifications for neighbouring Bosnia, where the 1995 US-brokered Dayton peace agreement has similarly failed to secure the free passage of ethnic Croats, Serbs and Moslems across former frontlines to their old homes.

Because of the incidents in Croatia, western officials have threatened to extend beyond July 15 the mandate of a United Nations transitional administration and 5,000 troops in Eastern Slavonia, the last Serb-dominated enclave in Croatie, along its border with Serbia and Hungary.

Some 80,000 Croat refugees expelled by the Serb-dominated Yugoslav army in 1991 are waiting to return to their homes in the region.

Mrs Madeleine Albright, the US secretary of state, is expected to raise this issue with President Tudjman at their meeting on Sunday. A State Department spokesman said yesterday that it was "entirely possible that the US will have to vote to extend the mandate of the UN military mission in Eastern Slavonia if there isn't better Croatian performance" on the refugee issue.

The recent violence has focused on villages in central and sonthern Croatia that were occupied by Serb rebels opposed to Croatian independence until they were driven out in a sweeping Croat offensive in the summer of 1995.

An estimated 200,000 Serbs fled "Operation Storm", joining half a million refugees already in Serbia or ending up in Bosnia and eastern Slavonia. Their exodus was followed by the systematic wrecking of thousands of houses.

Mounda of destroyed household items still litter the roedsides. Two mass graves each believed to contain the bodies of a hundred Serbs have been identified along the mountain road linking the strategic railway junction of Knin to the port of Split on the Adriatic coast and Zagreb to the north.

Houses have been daubed with such slogans as "Death to the Serbs" or painted with a large "U", symbol of the pro-German Ustasha regima in the second world war.

Minefields keep pastures empty of people and livestock. But numerous building sites flying the Croatian flag testify to the resettlement of thousands of Croats who were brutally purged from the Krajina area by Serbs at the outbreak of war in 1991.

According to Helsinki Watch human rights activists, Croat crowds this month attacked and expelled more than 100 Serbs from villages in the area of Kostajnica and further south near Knin, which used to be 90 per cent Serb. Some of the attackers were ethnic Croats who had occupied abandoned homes in Croatia after leaving Serb-controlled areas of Bosnia and the Serbian province of Kosovo.

"It was not an accidental outbreak of violence hut evidently something that was organised," said the US ambassador to Zagreb, Mr Peter Galbraith, after visiting Kostajnica. "It is clear that a state that is not sufficiently strong to create security for its own people is not e state that could qualify for admission to Nato or the European Union."

Mrs Albright delivered a similar message at a meeting in Washington with Croatia's foreign minister, Mr Mate Granic. And last Friday, western ambassadors met Mr Tudjman in Zagreb to express their concern.

The UN refugee agency accused Croatia of "ethnic engineering" by sealing up former Serb houses and expelling returnees. One senior diplomat said local officials, including the prefect of Kostajnica, hed inflamed the protests and were sabotaging the central government's declared policy of peaceful ethnic reintegration.

"We are trying to emphasise that implementation on the ground does not match policy at the top. It's no use if the words are there but the deeds are not," the diplomat said.

He pointed out that local officials had assigned the homes of Serbs to Croats from Kosovo under a recently passed "temporary accommodation" law, even though they knew their former owners were returning. He said the joint message to a Zagreb anxious to rid itself of its Balkan past was that the road to Europe, for the moment, was closed.

Mr Tudjman's response, carried on the official Hina news agency, was characteristically tough. "Claims that crimes in Croatia are organised and the government is unable to guarantee safety are unacceptable for the Croetian government and for the Croatian public," be said. He asked why no similar concern had been expressed for Croats expelled from their homes.

Mr Ivan Cicak, head of the Croatian Helsinki Committee for Human Rights in Zagreh, doubts the sincerity of Mr Tudjman's government. The committee has documented what it claims are several hundred cases of intimidation and attacks on Serbs in the former Krajina region, or rejection of their applications for Croatian papers that would let them to reclaim their property.

He said Knin's strategic importance linking railway lines and roads from Zagreb to the ports and tourist industry of the coastal sonth meant Croatia could not risk any resurgence of Serb nationalism there.

"Croatian official policy is to forbid their return," Mr Cicak claimed.

Nato divisions emerge over new member states

By Peter Wise in Sintra

Divisions among the members of Nato over which eastern European countries should be invited to join an enlarged alliance came into the open yesterday, as the US made clear its commitment to restricting new entrants to Poland, Hungary and the Czech Republic.

According to officials, Britain was in favour of also admitting Slovenia, and Germany indicated that it would not be inflexible in opposing Nato countries which wanted to bring in five new members, including Romania.

As Nato foreign ministers, meeting in Sintra, Portugal, began their first formal discussions on the issue, the alliance also initialled a security pact with Ukraine. The latter was on similar lines to the historic agreement signed with Russia earlier in the week.

The charter, which is to be signed at the Nato summit meeting in Madrid in July, provides for Ukraine, one of the biggest of the former Soviet republics, to call for consultations with Nato if it feels its security or political independence threatened.

Eleven countries are candidates to join Nato, but officials said there was broad consensus that membership in a first wave of enlargement would be offered only to Poland, Hungary and the Czech Republic, and possibly Slovenia and Romania.

Ministers from the 16 Nato countries gave no public indication of which countries their governments favour as new members and a final decision on the formal invitations to be made at the Madrid summit is not expected to be reached until the end of June.

However, it emerged that the US commitment to admit only three new members was backed, for differing reasons, by Norway, Denmark and Greece. France, Italy, Canada, Turkey and Belgium, Portugal and Luxembourg were strongly in favour of also bringing in Slovenia and Romania.

Britain, epparently modifying previous support for the US position, wanted also to extend membership to Slovenia, according to officials close to the negotiations.

Germany was described as firmly backing Polish, Hungarian and Czech membership but was also sensitive to the strong backing within the German parliament for inviting Slovenia and Romania to join as well. Spain, the Netherlands and Iceland were reserved in their positions.

Mr Robin Cook, the British foreign secretary, said a vital credential for new members was the military capability that would ensure enlargement did not weaken the alliance. Nato could not admit members whose security it could not guarantee.

Mrs Madeleine Albright, the US secretary of state, said the security pact between Nato and Russia would help diminish Russian resistance to Nato enlargement but would not result in a full Russian endorsement of the expansion.

"We know it will take time for the progress of trust in our relationship to catch up fully with the process of change," she said.

Reuter adds from Sofia: Bulgaria claimed yesterday that its progress towards democracy, stable relations with neighbouring Balkan countries and the Nato-Russia security pact gave grounds to expect early admission into the alliance.

Britain's new foreign secretary, Robin Cook, with US secretary of state Madeleine Albright, at Nato's ministerial meeting in Portugal yesterday Reuter

Way clear for Swiss bank records probe

By Norma [illegible] and William Hall in Zurich

More than a year after its creation, the Volcker commission, set up by Swiss banks and Jewish groups to investigate dormant accounts of Holocaust victims, will finally announce a deal next week allowing its inquiry to proceed.

The commission's forensic accountants, Arthur Anderson, KPMG and Ernst & Young, told the Commission just weeks after their appointment last November that they would not proceed unless they were indemnified against possible claims from those disputing their findings.

Until now, the commission, which is funded by Swiss banks, has refused to offer an indemnity or to pay for reinsurance policy against claims.

The deadlock has meant that a scheduled "pilot" audit of the records of four Swiss banks, planned for next month with a final audit by June 1998, will be at least six months late. The inquiry is intended to be the most sweeping ever into the secretive practices of Swiss banks and will include a review of account handling and record keeping.

Creation of the commission, headed by Mr Paul Volcker, a former US Federal Reserve chairman, has been one of the Swiss government's moves to head off an international boycott of its banks.

Jewish groups and international governments have been critical of the role of Swiss banks in dealing with Nazi Germany during the second world war. The banks are accused of holding billions of dollars in assets of those who perished in the Holocaust. Swiss banks deny that any significant sums remain and the Volcker commission is charged with uncovering the truth.

Under an arrangement agreed yeaterday, the accountancy firms will set up a Swiss reinsurance facility to cover the costs of possible claims above the limits of existing liability insurance. The firms will pay the premiums but the banks will pay slightly higher accounting fees. The deal is expected to be announced at the commission's meeting in Israel next Tuesday.

It is common for international accounting practices to seek indemnities for certain types of non-audit work.

Taliban forces 'beaten in north'

By Charles Clover in Termez, Uzbekistan

All foreignars bave evacuated tha town of Mazar-i-Sbarif, nortb Afgbanistan, fearing a vengeful return by the fundamentalist Taliban, whose fighters have been driven out after a 15-hour street battle.

Tbe forces of General Abdumalik Pahlavan killed 500 of their erstwhile allies in possibly the bloodiest engagement of Afghanistan's 18-year civil war.

"I don't think in the history of the conflict there have been several bundred troops killed in such a short time," one UN worker said when arriving in the Uzbek border town of Termez. "The Taliban were exterminated." said anotber UN workar. "For one body they used 100 bullets."

The bodies of the Taliban are slowly being buried or exchanged for prisoners. The fate of north Afghanistan, which seemed sealed four days ago as the Taliban swept through the region, is once again open to question.

Another UN aid worker said: "The Taliban are furious and we heard that 100 truckloads of their troops had left Poli-i-khomri [a town south of Mazar-i-Sharif which the Taliban took on Wednesday] heading for the north".

Doubts remain about the ability of the Taliban to retake city. "They will try to come back to Mazar, but they can't. They are finished in the north," another aid worker said.

The Taliban and the forces of Gen Abdumalik bad jointly occupied Mazair-i-Sharif for two days as allies. Last Monday. Gen Abdumalik had originally sought Tallban support aftar be split with his commander, General Abdurashid Dostum, the Uzbek warlord who helped lead tha northern alliance against the Taliban. Gen Abdumalik captured Mazar from Dostum on Saturday, and on Sunday, a Taliban contingent numbering up to 1,000 was allowed in.

Fighting started on Tuesday after the Taliban foreign minister, Mullah Mohammed Gbaus, met representatives of Gen Abdumalik in Mazar and demanded the latter begin to hand over their weapons, and instal as governor of the town Mullah Abdurazzaq, Taliban governor of the town of Herat.

"This was not the deal they had earlier made," said the UN worker.

It is unclear which side started shooting first. The Taliban were at a disadvantage, surrounded in the centre of the city by Gen Abdumalik's forces wbo controlled the city's access routes. "It was easy to tell the Taliban. They have full beards. They are a completely different tribe," said one UN worker. "They were hunted down."

As the magnituda of the slaughter settles in, Afghan alliance patterns are once again in motion. In Termez, it was rumoured that Gen Dostum was due to arrive from Ankara, where he fled last week.

New help drives Turkish advance

By Kelly Couturier in the Zab River valley, Iraq, and Edward Mortimer in Ankara

Unprecedented co-operation between the Turkish military and forces loyal to the Iraqi Kurdish leader Mr Massoud Barzani has been a key factor in the success of a continuing Turkish offensive against Kurdish separatist rebels in northern Iraq.

Several hundred demonstrators protest yesterday in Baghdad against Turkey's offensive in northern Iraq Reuter

Mr Barzani's collaboration with the Turkisb troops in their two-week-old offensive against the Kurdistan Workers party, or PKK, stems from a shared goal to clear the region of PKK forces, according to a Kurdisb Iraqi source.

The PKK, the source said, had been trying to become the dominant Kurdish force in the northern Iraqi Kurdish enclave, whicb is currently divided into zones controlled by Mr Barzani's Kurdistan Democratic party and the rival Patriotic Union of Kurdistan, led by Mr Jalal Talabani.

Tha new-found co-operation between Turkey and Mr Barzani could alter the balance of power in the chaotic Kurdisb enclave – wbere regional powers Ankara, Tehran and Baghdad continue to struggle for influence.

Baghdad has been denied authority in predominantly Kurdish northern Iraq since the end of the Gulf war.

Tbe Turkisb incursion, reported to involve as many as 50,000 troops inside northern Iraq, has been harshly criticised by Iran and Baghdad, as well as by Syria.

Turkish military end government officials have sbaken off the criticism, however, declaring the operation will continue until the PKK is cleared from the area and Mr Barzani's forces have assumed control of the region.

Turkish military officials in Iraq say the Turkish offensive, one of the largest of several cross-border operations undertaken in recent years, has wiped out PKK camps in the Zab, Sinat, Haqurk, Zeli, Hafthanin and Kesan regions of Iraq, all close to the Turkisb border.

The PKK has used the targeted camps as bases from which to launch attacks into Turkey, wbere they bave been waging a guerrilla war since 1984.

The Turkisb military recently took a group of journalists – the first reporters to be allowed into the zone since the operation began – to the Zab Camp, located in the Zab River valley about 18km south of the Turkisb border and about 100km east of the Iraqi town of Zakho.

Taking tbe Zab Camp, which the military said was the PKK's headquarters in nortbern Iraq with more tban 1,000 guerrillas, was one of the main objectives of the operation, according to gendarmerie Lt. Gen. Altay Tokat, commander of regional forces, who briefed reporters at his tactical command centre perched atop a ridge in the Cukurca region of southern Turkey.

The battle for Zab began, Gen Tokat said, when fighter jets and Super Cobra helicopters bombed the camp, after which specially trained mountain commandos moved into tbe area and engaged guerrillas during a fierce 48-hour firefight on May 18-19.

Reporters trekking along a mine-strewn path into the camp, which is built into a mountainside with a sweeping view of the river valley below, found traces of the recent battla – shrapnel from bombs, torn guerrilla uniforms and bullet casings.

Turkish soldiers in firing position in fortified dugouts dotted the mountainside, while other soldiers searched the ridge above. Below, in the valley, more units continued to engage guerrillas. The sporadic sound of gunfire echoed up the mountainside.

A bombed-out, gaping cave carved into the slope that was once Zab Camp had been used by tha PKK as a political and military training centre, soldiers bere explained.

Anotber nearby multi-roomed cave had been used as a bospital end meeting room, the soldiers said.

The toll for the Zab battle, according to Maj Gen Yusuf Soybas, commander of the gendarmerie division whose soldiers fought here, was 600 PKK dead, five captured and one wounded. The Turkish forces lost 20 men, he said, at least 10 of them killed by land mines. The rest of the estimated 1,000 guerrillas based here were believed to have fled to mountain areas south and east of Zab, Gen. Soybas said.

To date, Turkish military officials claim to have killed more tban 1,800 guerrillas, but this has not been independently confirmed. According to Iraqi Kurdish sources, an estimated 5,000-6,000 guerrillas were believed to be based in the region.

One western source was cautious abont the high guerrilla casualty figures announced by tha Turkish military.

"No high-ranking diplomat, government official or former military officer is going to believe body counts unless the bodies are shown," be said.

But even if the death count is lower than reported, the source said, "the operation has been effective in attaining its main military objectives of disrupting PKK command-and-control, communications and logistics."

Third world capital inflows to rise

By Patti Waldmeir in Washington

Ageing western populations and the resulting pressure for pension reform will belp sustain private capital flows to daveloping countries at record levels, the World Bank said in a report yesterday. Pension funds are likely to raise investments in emerging markets, says the report, Private Capital Flows to Developing Countries: the Road to Financial Integration.

"The growing proportion of private capital flowing to developing countries is here to stay," Mr Joseph Stiglitz, World Bank chief economist, told a press conference. This is being driven by structural forces, including the growing integration of developing countries in international financial markets, the report says, noting that these forces "have yet to reach their limits both on the international side and in developing countries".

Developing countries' share of world market capitalisation, now around 10 per cent, could rise sharply as developing economies grow at nearly double the rate of industrial nations and develop rudimentary financial markets and new countries benefit from flows.

Tha report says western demographic shifts are a new factor in private flows: an ageing baby boom generation will increase pressures for pension reform including shifts to fully funded schemes, privatisation and easing of regulations on risky international investments. "Pension funds are likely to be a major force in the demand for portfolio equities from developing countries," it says, noting pension fund boldings of emerging market assets, now $70bn, could rise "very considerably" over the next decade.

INTERNATIONAL NEWS DIGEST

Israel in 'final status' delay

Israel has pulled back from plans to start to wrap up final status negotiations within six months, a senior adviser to Prime Minister Benjamin Netanayhu said yesterday. Mr David Bar-Ilan, director of communications and policy planning, said "any belief in the idea that we could do this" was no longer realistic. Mr Netanyahu had launched the proposals two months ago but the Palestinians were highly sceptical, believing it a plan to side-step implementation of the Oslo accords.

Maps of a final settlement, to focus on future borders, Jewish settlements in the West Bank, refugees and Jerusalem, were published yesterday in Ha'Aretz, the liberal daily newspaper. The maps, prepared by the Israeli Defence Forces, showed how 40 per cent of the West Bank would be handed over to the Palestinians, it said.

Mr Netanyahu confirmed that ideas for a final peace deal were for the first time discussed at Wednesday's cabinet meeting but said he had not drafted any map. Mr Osama al-Baz, the Egyptian envoy, was last night due to meet Mr Netanyahu. *Judy Dempsey, Jerusalem*

US promises Africa backing

Africa faces a rare opportunity in pursuit of economic growth and development which Washington fully intends to support, Mr Lawrence Summers, deputy US treasury secretary, has told the annual meeting of the African Development Bank (ADB) group in Abidjan, Ivory Coast. He promised greater help for those countries pursuing structural reform, new initiatives on primary health care and education, and more aggressive support for infrastructure improvements needed to support private sector-led growth.

In what officials described as "America's re-commitment to post-post-colonial Africa," a package of concessions to include tariff reductions and exemptions, qualified debt write-offs and direct financing will be on offer to better performing countries, with Ivory Coast, Uganda, Ethiopia and Ghana among those in vogue, as well as South Africa and Mozambique, Mr Summers' next destinations. While the Clinton administration hopes to pass legislation through Congress this year allowing its policy shift, Mr Summers acknowledged external involvement in Africa was changing from bilateral and multilateral bodies to an expanding private sector interest. *Antony Goldman, Abidjan*

Kabila gives poll pledge

Mr Laurent Kabila was sworn in yesterday as president of the country he conquered and renamed Congo. He promised elections in two years, after a transition from three decades of dictatorship under former President Mobutu Sese Seko. "We should start from the beginning," Mr Kabila declared, giving for the first time a timetable for the move from dictatorship to what he has promised will be full democracy.

He took the oath in Kinshasa's Kamanyola Stadium at a ceremony watched by more than 30,000 people, and the presidents of Angola, Rwanda, Uganda, Burundi and Zambia, all strong backers of Mr Kabila in his war against Mr Mobutu. Mr Kabila said a commission to begin work on the constitution would be installed by September, and its work should be completed by October 1998. A referendum on the constitution should be held by December 1998, followed by presidential and legislative elections in April 1999. *AP, Kinshasa*

EU-Norway deal on salmon blocked

By Neil Buckley in Brussels

A furious row in tbe European Commission yesterday blocked a proposed deal with Norway to avert tbe imposition of anti-dumping duties on imports of Norwegian salmon.

The 20 commissioners have now been summoned to an almost unheard-of 9pm meeting on Sunday in an effort to reach a last-minute agreement on the planned deal before the legal deadline of midnight Sunday.

Scottish fishing groups – which officially complained last year that Norway was dumping Atlantic salmon in the EU market at below-cost prices – say the proposed deal puts 5,000 jobs in the Scottish salmon industry at risk.

The deal involves undertakings from Norway to sell its salmon in the EU above a minimum price and to limit growth of its imports into the EU, rather than having 13.7 per cent anti-dumping duties imposed on its salmon as originally proposed in March by Sir Leon Brittan, trade commissioner.

A "beated" four-bour meeting yesterday broke up in acrimooy after Sir Leon failed to persuade enough fellow commissioners that the agreement he had negotiated with Norway this week was preferable to anti-dumping duties.

He was vigorously opposed by fellow UK commissioner Mr Neil Kinnock, Mr Padraig Flynn, social affairs commissioner, and Mrs Emma Bonino, fisheries commissioner. They insisted minimum price undertakings were insufficient, with punitive duties the only effective option.

Sir Leon had been expected to press ahead with duties aftar a Commission investigation supported the complaints from Scottlsb and Irish fishermen that Norwegian salmon growers, belped by state subsidies, had been dumping salmon in the EU at up to 14 per cent below cost price.

The trade commissioner – if backed by other commissioners – can impose temporary duties for six months witbout approval from EU ministers, thougb he must consult a committee of EU states' representatives.

Meetings of the committee last month exposed significant opposition among EU states to Sir Leon's proposed duties.

All sides have refused to disclose the terms of the proposed compromise with Norway.

But it is thougbt to include five-year minimum price undertakings; "indicative" limits on the increase in Norwegian salmon exports to the EU each year until 2002; a rise in Norway's own export tax on exporters, and regular European Commission monitoring.

Saudi Arabia urged to open up to imports

By Frances Williams in Geneva

Saudi Arabia's trading partners yesterday urged it to present by the eutumn a wide-ranging offer to open its domestic market to foreign goods and services in order to speed talks on its application to join the World Trade Organisation.

Mr Osamah bin Jaafar bin Ibrahim Faqih, the Saudi commerce minister, told the third meeting of the WTO working party drafting the country's entry terms that his government boped to be in a position to submit initial offers "shortly". The working party is expected to meet again in late autumn.

Tbe oil-ricb kingdom, which applied to join Gatt, the WTO's predecessor, in 1993, had hoped to join the world trade body later this year. However, this goal now looks unachievable and trade officials say some time next year is the earliest the Saudis can realistically aim for.

Even this depends on faster progress in the membership negotiations, in which applicants negotiate botb their compliance with general fair trade rules and, in bilateral talks witb tbeir main trading partners, the lowering of tariff and other trada barriers to imports of goods and services.

Saudi Arabia's economy is dominated by state-owned oil and chemical industries and its fledgling private sector is protected by high tariff walls and a raft of other measures.

The Riyadh government has asked for tbe longer transition times sccorded to developing countries.

However the US and other WTO members are expected to insist on early compliance with fair trade rules on such issues as intellectual property, where copyright piracy is rampant, and agriculture, where generous farm subsidies enabled the desert kingdom in 1992-93 to become the world's sixth-biggest wbeat exporter.

Saudi officials said yesterday that subsidies as a proportion of the value of agricultural output had fallen from 25 per cent in 1992 to just under 19 per cent in 1994, the latest available year.

Trading partnars also raised qoestions about the country's import licensing system, including a ban on imports of pasteurised milk and restrictions on the import of eye-glasses and breeding horses.

Hope is for accord to be tough enough to win member states' approval next month

Brussels reaches pact on leg-hold traps

By Emma Tucker in Brussels

The European Commission bas reached a new agreement with Canada and Russia on tbe use of leg-bold traps in the bunting of animals such as wolves and lynx, which it bopes will be tougb enongb to win approval from member states next month.

The agreement goes further tban a previous deal thrown out by environment ministers for being too soft on the use of sucb traps which they condemn as inhumane.

It is unclear whether its demands will go far enough to satisfy the environment ministers, many of whom would like an outright ban on the use of leg-bold traps. They are due to consider the proposals on June 19.

The draft agreement includes a slightly sborter phase-out period for steel-jawed leg-hold traps and has tightened an exemption for indigenous people. Under the new deal, this will now only apply to the use of traditional wooden traps in certain areas of Russia.

However, the deal would still allow plastic-padded end under-water leg-bold traps to be used, both of which have been strongly condemned by countries sucb as the Netherlands and the UK.

The Commission, asked by the council to negotiate an agreement on the use of traps last year, believes a commitment from Russia and Canada to phase out the use of leg-hold traps is a more effective way of ensuring a substantial improvement in animal welfare than an outright ban on fur imports from countries where such trepping methods are used.

Sir Leon Brittan, the EU's chief negotiator, also argues that a fur ban could also trigger a trade war, because Canada and the US have vowed to challenge any import ban under the World Trade Organisation.

Even if this agreement is adopted by environment ministers next month, the problems of fur imports from the US remain unresolved. EU negotiators have failed to make headway with the US, which insists on the right to continue using steel-jawed traps if an alternative trapping method cannot be found.

Under the revised deal, the use in Canada of all jaw-typed leg-bold traps on land will be prohibited for seven of the 12 relevant species as soon as the agreement enters into force.

For the remaining five species, conventional steel-jawed traps on land will be outlawed at the end of the third trapping season after the agreement is concluded. This means March 31 of the year 2000 if the Council approves the deal bafore October this year.

US and Israel clash on trade barriers

Washington seeks reforms on standards and greater transparency over tenders

There is a small non-kosher butcher shop close to Jaffa Street, one of Jerusalem's busiest thoroughfares, where Jacob, the owner, sells a wide selection of meats. They range from imported Spanish prosciutto and Italian salami to locally-prodnced lamb and goose liver paté.

He sells beef as well. But none of it is imported. Under pressure from Israel's religious parties, beef imports were banned a few years ago, but the rabbis did not stop the production of local non-kosher beef.

It is thet discrimination, or what the US calls a denial of "national treatment" in international trade agreements, which will be raised when Israeli and US trade officials bold talks in Wasbington later this week.

The talks follow a scathing speech earlier this month by Mr Martin Indyk, the outgoing US ambassador to Israel. He argued tt was reasonable to ask "our closest ally" (Israel) that they "work with us to open their markets to US exports", whicb, ba added, faced many barriers from the Israeli side.

He was concerned that Europe now accounts for 50 per cent of all exports to Israel and is running a large trade surplus, while the US has a 20 per cent share. US-Israeli trade is roughly balanced at about $6bn a year each way.

To drive bome his point that Israel should open further its markets to US goods, he told the audience, which included Mr Benjamin Netanyahu, Israal's prime minister: "You owe it to us!" – making more than an oblique reference to the $10hn-worth of US-backed loan guarantees Washington granted Israel in 1993 to accommodate the 700,000 Russian immigrants, and which expire next year.

What US trade officials seek from Israel are reforms that will improve bilateral trade end lift barriers. Apart from the beef issue, these include standards, protection of intellectnal property rights and transparency of public tenders.

The US insists Israel open the market to US packaging, which is still not metric. US food, for example, is packed in pound/ounce units.

Mr Zohar Perry, head of international trade at Israel's trade ministry, says be cannot understand why US producers cannot introduce metric labelling on packages, adding that it was in the interests of the local consumer that Israel had been reluctant to open its market to these US goods. US trada officials reply it is because the Israelis want to protect their own markets.

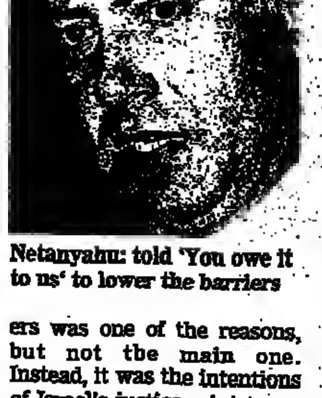
"Why should we move away from the metric system when it is the norm in nearly all the rest of the world?" argued Mr Perry. "This US attitude would not be tolerated in European countries. US producers feel its not worth changing their labelling for such a small market as Israel bnt they would do it in Germany."

Mr Edgar Fulton, commercial counsellor at the US embassy in Israel, says the small and medium-sized US companies which are trying to go global but do not have subsidiaries abroad, think the Israeli markets sbould be one of the places for easy export.

After all, "both countries bave a free trade agreement dating back to 1985 and fully implemented two years ago," he said. As a first step to a compromise, Israel has agreed to have a system of labelling, informing the consumer the cost of the US product per 100 grams.

Of even more concern for the US is protection of intellectual property rights. Earlier this year, Israel for the first time was placed on "Super 301", a US watchlist for inadequate protection of intallectual property by America's trading partners.

Piracy of video cassettes, compact discs and computers was one of the reasons, but not tbe main one. Instead, it was the intentions of Israel's justice ministry.



Netanyahu: told 'You owe it to us' to lower the barriers

After lobbying by the pharmaceutical companies, including Teva, Mr Tzachi Hanegi, justice minister, wants to amend the country's patent laws in such a way as to permit local generic drug prodncers to make and sell abroad ethnic drug compounds patented by US companies before the US patent expires.

Mr Tain Tomkins, economica counsallor at the US embassy in Israel, says that this would be an infringement of the rights of US patent holders. Mr Indyk went further. He warned that Israel was handicapping itself in drawing foreign investment as a result of its weak intellectual property rights regime.

Another contention – one raised repeatedly by the US in its trade relations with Germany – concerns tenders. The US thinks the existing tender law is complex, lacks transparency, tender committees are under pressure from local manufacturers, and Mr Indyk says, European competitors "benefit from long-standing relationships as suppliers, from imbedded preferences in the government and the government-owned companies".

Israel's trade ministry brushed aside criticisms of bias or lack of transparency. "If US companies believe they have lost out on tender for unfair reasons, they should go to the courts," said Mr Perry.

Another official said he wondered if Washington's argument with Israel was really about its concern over the growing impact of European Union trade in Israel and the rest of the Middle East.

Whatever the reasons, Israeli officials said they would be under pressure to make compromises and introduce reforms. "Such is the price of dependence on the US," one added.

Judy Dempsey

Shanghai's foreign groups 'evade' tax

By James Harding in Shanghai

Nearly half the companies backed by foreign investment in Shanghai are evading tax payments, costing China's largest city hundreds of millions of dollars in lost revenue, according to government tax officials.

The problem is adding to the fiscal difficulties of the government, which is pursuing an ambitious spending programme but is saddled with a chronically inefficient tax collection system.

The Business Times, the official business newspaper in Shanghai, reported yesterday that of the more than 5,000 registered foreign companies, only 2,807 had registered to pay tax, indicating that nearly 50 per cent had so far paid no tax at all.

The article suggested that the municipal authorities might put greater pressure on foreign businesses to meet their tax obligations. The Shanghai tax office would make no comment.

Nevertheless, the Shanghai local government collected a total of Yn4.077bn ($490m) in taxes from foreigners in this year's first quarter, up 42 per cent on the same period last year.

The World Bank estimated last year that China needed to raise revenue collection to 6 per cent of gross domestic product if it was to finance the infrastructure and social spending required to maintain high growth rates.

China introdnced tax reforms in 1994 to try to improva efficiency in collection, but 1996 fiscal revenues as a proportion of GDP fell from the level a year before, which was seen as avidence of endemic tax evasion.

Yesterday's implicit criticism of foreign companies in Shanghai follows recent attacks on a separate front: labour law violations.

"Many overseas-funded ventures baven't paid into pension funds or bousing accnmulations funda... some enterprises have not given employees overtime pay and some have fired employees indiscriminately," said the Shanghai Star, the local newspaper.

China urged to step up search for new oil fields

By Tony Walker in Beijing

China must redouble efforts to discover new oil fields to cater for a fast-growing economy and reduce growing dependence on imported fuels as the gap widens between demand and supply.

Mr Li Peng, the premier, writing in Seeking Truth, the Communist party magazine, said China should focus its oil search in its underdeveloped western regions under a policy of "stabilising the east and developing the west". This was a reference to the need to preserve production at oil fields in the east while pursuing new finds in the Xinjiang region of Central Asia.

Mr Li, a power sector engineer by profession, was expressing China's increasing concern about the mounting cost of oil imports. China became a net oil importer in 1995, and unless substantial new deposits are tapped imports are set to rise five-fold by 2010.

China's economy has been growing at about 10 per cent, but oil ontput has remained relatively stagnant. It was up about 5 per cent last year to 156m tonnes, but increasing investment is needed to maintain flows from its main Daqing field, which accounts for about a third of national production.

Mr Li, who is tipped to be given responsibility for large infrastructure projects when he steps down from the premiership next year, also called for greater use of China's natural gas reserves, noting the country's "production scale is fairly small, far below the world average." Natural gas output was 20.1bn cubic metres in 1996.

Foreign oil companies, whicb have been restricted to marginal areas in exploration onsbore, blame China's growing "oil deficit" on an unwillingness by the nationalistic Chinese to open more prospective areas to foreigners.

But there are signs that the fuel import bill – China imports 15 per cent of needs – is prompting a re-think. Beijing is opening more promising areas of its Tarim basin in Xinjiang, seen as one of tha world's last great "oil plays".

Koreans face an array of hurdles to recovery

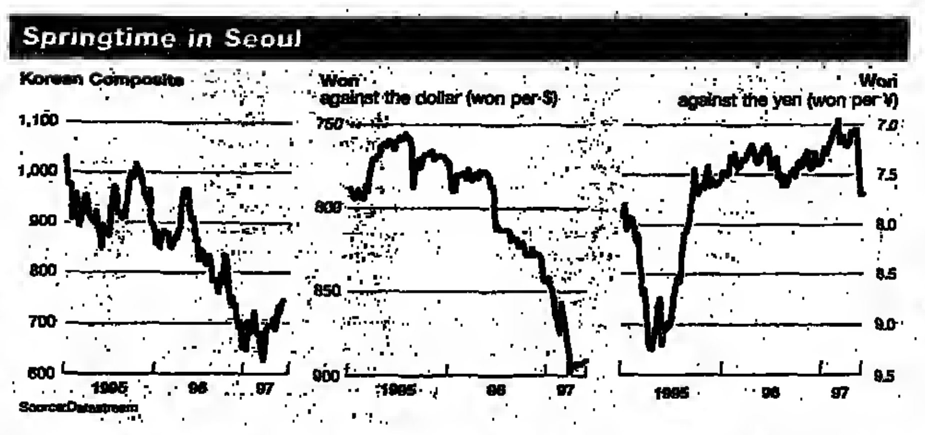
After a year of economic gloom, the outlook seems brighter in Seoul. The stock market yesterday bit a record high for 1997, while the release of economic data for April revealed that South Korea's current account deficit is continuing to narrow.

The reasoo for optimism has been the growing strength of the yen against the US dollar tbis month. The health of the economy is largely tied to the fortunes of the Japanese yen, since the two countries compete in many of the same export industries.

The weak yen last year allowed Japan to undercut sucb South Korean products as cars, electronics and ships in global markets, wbich contributed to Seoul's record current account deficit of $23.7bn in 1996.

A stronger yen should now boost South Korean exports at Japan's expense as the Korean currency, the won, is broadly pegged to the dollar.

Government officials in Seoul believe the latest economic downturn that began a year ago probably hit bottom in the first quarter of 1997, wben the growth rate in gross domestic prodnct fell to 5.4 per cent.



State and privata economists predict that economic growth this year will reach the government's target of 5.5 to 6 per cent against 7.1 per cent in 1996, while the current account deficit will shrink to $16bn-$20bn.

But most analysts believe that full economic recovery is unlikely until next year.

They estimate that the yen would probably have to rise to 100 to the dollar before the exchange rate had a significant impact on the performance of the South Korean economy, with tbe effecta taking several months to be fully felt.

"We will see a turnaround in the next two or three months because of the yen/dollar excbange rate, but any recovery will not be robust until we see an improvement in the cyclical factors that were the main reasons for the downturn," said Mr Park Ungsuh, president of the Samsung Economic Research Institute.

Mr Park blamed the sluggish economy on a slowdown in global demand and a consequent fall in prices for such key exports as semicondnctors – which account for 20 per cent of exports – petrochemicals, steel and ships.

Some economists believe Korea's economic problems bave been self-inflicted, since buge expansion of its production capacity in the past few years contributed to a supply glut that caused global prices to collapse.

Other potential economic pitfalls this year include the possible fall of more heavily indebted conglomerates following the bankruptcy of the Hanbo and Sammi steel groups, and political uncertainty caused by a presidential election and the instability of a starving Nortb Korea. A rise in international oil prices also threatens to worsen South Korea's balance of payments, since energy accounts for 40 per cent of its imports.

In spite of these problems, the Samsung institute predicts that GDP growth will improve to 7.2 per cent next year, while the current account deficit will further narrow to $12bn.

However, analysts are concerned about wbether Korea can sustain its traditionally high growth rates because of its industrial woes.

"Although the economy is improving, structural problems must ba still be corrected," said Mr Lee Seung-Hoon, economic analyst with BZW Securities in Seoul.

The current downturn has underscored tbat Soutb Korea's economy is vulnerable wben it is deprived of the advantage of a cheap currency against Japanese competition.

Soutb Koraa lacks tbe capability of Japan in overcoming the effects of a strong currency by improving productivity and cutting costs. Japanese companies are also more technologically advanced and financially healthier, while relying on a domestic market three times as large and twice as rich as Korea.

Sontb Korea, baving ignored warning signs from previous recessions, is in danger of repeating its mistakes by refusing to proceed with rapid economic deregulation and financial liberalisatioo that would reduce production costs.

"Next year may turn out to be only a bubble economy if we waste the opportunity to readjust the economy, such as making tbe labour market more flexible and easing restrictions on tbe financial market," said Mr Park. "If we fail to learn from tba current downturn, Korea is perhaps doomed for ever."

John Burton

ASIA-PACIFIC NEWS DIGEST

Jiang may be at HK handover

China's President Jiang Zemin seems set to visit Hong Kong for the ceremonies marking the territory's return to Chinese sovereignty et midnight on June 30, according to diplomats. It will be the first time a Chinese head of state has set foot in Hong Kong, a British colooy for more than 150 years.

Mr Hugh Davies, leader of the British delegation to the Sino-British Joint Liaison Group (JLG), said Britain still awaited confirmation of China's representatives at the handover ceremonies. But be indicated China was expected to be represented at the most senior level.

"We have already announced that our principal participant will be the Prince of Wales," said Mr Davies, before yesterday's JLG talks. "We still await confirmation of who will be the principal participant on the Chinese side, though we have been given some broad hints it is somebody very senior." *John Ridding, Hong Kong*

Thais see reserves decline

Thailand yesterday reported a drop in foreign reserves and a balance of payments deficit for the third straight month, but also saw a better export performance and modest renewal in the growth of manufacturing output.

Foreign reserves at the end of April were $37.3bn, a fall of $800m from s month earlier. Economists expect a further drop next month because of central bank intervaotion in support of the baht. The balance of payments deficit was Bt15.5bn ($604m), higher than tha March deficit of Bt700m but still smaller than February's Bt26.6bn deficit, the last time the baht was attacked.

The manufacturing output index rose for the first time in several months, up 6.4 per cent year-on-year in March against 3 per cent the month before. Exports in March grew 4.6 per cent year-on-year against a 5.5 per ceot year-on-year decline in February. *Ted Bardacke, Bangkok*

Manila checks foreign stakes

The Philippine Securities and Exchange Commission, the market watchdog, yesterday ordered the establishment of an effective system to monitor foreign ownership of partially nationalised companies.

Foreigners may buy a stake of up to 40 per cent of groups in the telecommunications, banking, shipping and manufacturing sectors. Mr Perfecto Yasay, SEC chairman, said declassification of companies' A and B shares meant an independent monitoring system was now needed to ensure foreigners stayed within the 40 per cent limit. *Justin Marozzi, Manila*

Cathay may seek payment

Cathay Pacific, Hong Kong's main airline, said yesterday it would explore the possibility of seeking compensation from Rolls-Royce following the grounding of its Airbus A330-300 aircraft because of engine problems. Analysts calculate the flight stoppages have cost Cathay Pacific some HK$5m (US$650,000) a day, plus costs incurred in chartering substitute aircraft and accommodating stranded passengers. The aircraft have not flown since Saturday, and it was first thought they would be grounded for three weeks.

However, Cathay Pacific now says Rolls-Royce have pinpointed tha problem and that assuming all tests are satisfactory, the aircraft could be back in the air as soon as Sunday. *Louise Lucas, Hong Kong*

World Bank warns of new debt crisis

By Stephen Fidler, Latin America Editor

The use of government guarantees to help finance private projects in Latin America and Asia risks causing a fresh debt crisis, the World Bank warned yesterday.

The warning comes as countries across Latin America and Asia are privatising state-owned companies and increasingly relying on private financing of infrastructure, as part of efforts to cut government spending and reduce public borrowing.

At a conference which began yesterday in Cartagena, Colombia, government officials and others from Latin America were repeatedly warned against letting the increasingly popular guarantees get out of hand.

Mr Christopher Lewis of Ernst & Young and Mr Ashoka Mody of the World Bank said: "Nobody knows for sure what the full extent of these liabilities is – because no attempt to systematically undertake them has been undertaken.

"However, with the accelerating pace of privatisation and deregulation in Latin America, the use of government guarantees may soon amount to an unmanageable exposure on many governments' balance sheets."

Governments should develop ways of quantifying exposure to private infrastructure projects and provide fiscal reserves for them.

Only two governments – Colombia and the Philippines – were consciously trying to develop ways to manage this exposure. The Philippines last year initiated a programme to assess its exposure to infrastructure projects, as well as pension and mortgage liabilities. Colombia last year sponsored a pilot programme for measuring contingent liabilities on certain projects.

Papers presented to the conference make clear such guarantees are not always explicit, citing examples of French and Mexican toll road financing programmes which ended in bail-outs and substantial fiscal costs. Investors – at least equity investors – have to be allowed to fail and governments should treat implicit guarantees as explicit ones – and reserve for them fiscally.

A paper from three economists from the University of Chile said government guarantees reduced incentives to screen out white elephant projects, blunted incentives and created contingent liabilities for government which were seldom valued.

It said governments should minimise the risks they take by simplifying the method of auctioning for projects, not being dependent on information from franchise holders, providing incentives for marketing and maintenance, avoiding opportunistic renegotiations, designing flexible contracts and introducing competition, where possible.

It suggested a new type of auction for infrastructure projects such as toll roads, which often prove problematic. They suggest the user fees to be charged by franchise holders should be fixed – and the franchise should be won by the company that asks for the least user fee revenue in net present value terms.

The franchise should revert to the government when the present value of user fee revenues is equal to the size of the bid.

This provided a ready mechanism to extend the length of franchises if revenues fell below projections, and made projects less dependent on initial user forecasts and less prone to potentially damaging contract renegotiations.

Canada votes on Monday. FT writers report from two key politicians' patches

Federalist charmer lures Quebec

CANADA ELECTIONS
June 2

More than half the residents of Sherbrooke, a tourist and service centre in Quebec's Eastern Townships, voted in favour of independence from Canada in an October 1995 referendum. Yet a poll published last Friday by La Tribune, the local newspaper, showed more than 80 per cent of decided voters planned to back two federalist candidates in the general election next Monday.

The change of heart has much to do with one of the candidates, and the sitting MP, being Mr Jean Charest, 38-year old leader of the Progressive Conservative party.

Mr Charest has emerged as the star performer of the campaign across the country.

According to La Tribune, 75 per cent of Sherbrooke voters support him, compared with just 18 per cent for the secessionist Bloc Québécois (BQ) candidate.

The trend in Sherbrooke may be magnified by Mr Charest's presence, but it is evident throughout Quebec. On Monday the independence movement could suffer its first serious reversal in more than a decade.

"We've allowed them to have the floor for the past few decades," says a Montreal lawyer and federalist organiser. "More and more people are realising that this uncertainty is hurting their future."

His judgment is mirrored by concern in the separatist camp.

Recalling the secessionists' decisive defeat in the first sovereignty referendum in 1980, Mr Guy Bouthillier, president of the Société St Jean-Baptiste, an ultra-nationalist group, said: "We recovered, but it took seven or eight years. We don't want to go through that any more."

Mr Bouthillier warned Québécois that a strong showing by the Liberals and Conservatives on Monday "will encourage English Canadians to think that the issue is a dead duck".

The turmoil in the separatist camp is also evident in the increasingly active role of Mr Lucien Bouchard, Quebec's charismatic premier, who spearheaded the secessionists' near-victory in the 1995 referendum.

The province's independence movement could suffer a serious reversal

BQ organisers have turned again to Mr Jacques Parizeau, the ex-premier and ideologue, who fell out of favour just a few weeks ago when he revealed he had considered a quick unilateral declaration of independence if the Yes side had won in 1995.

According to polls published last week, the BQ, the Tories and prime minister Jean Chrétien's ruling Liberals were running virtually neck-and-neck in Quebec.

However, the Bloc may have received a boost from an unexpected source in the closing stages of the campaign.

The right-of-centre Reform party, whose stronghold is western Canada, has taken an increasingly strident line on Quebec. In a controversial TV advertisement, Reform questioned the right of Quebec-born leaders, such as Mr Chrétien and Mr Charest, to speak for Canada as a whole.

The federalist fear is that Reform's tactics will not only win support in western Canada, but drive exasperated Québécois back into the embrace of the separatists before voting day. As a columnist wrote in the Globe and Mail this week, "the Bloc and Reform feed off each other."

Furthermore, Liberal support is heavily concentrated in the English-speaking and immigrant communities around Montreal.

With a few exceptions (such as Sherbrooke), the Tories' grassroots organisation is weak. A split federalist vote could hand victory to the BQ in many other constituencies. The BQ could still win 40 seats on Monday.

Even that, however, would be a setback. The Bloc Québécois, created in 1989 to give separatists a voice in the federal parliament, swept up 54 of Quebec's 75 seats in the 1993 general election, making it the official opposition in the House of Commons.

It was widely assumed when the election was called in late April that the BQ would once again come out ahead of other opposition parties.

Instead, the Bloc's fortunes nosedived. Its inexperienced leader, Mr Gilles Duceppe, got off to a bad start by turning a photo opportunity into an image nightmare when he toured a cheese factory wearing an unbecoming hairnet.

The BQ has faced more deep-rooted problems too. Two decades of political uncertainty have sapped Quebec's economy. The jobless rate has hovered around 12 per cent, well above the national average. The property market is weak, and foreign investors are wary.

For the past 18 months, Mr Bouchard has put the independence drive on the back-burner to focus attention on economic revival. He closed hospitals and schools, and cut the civil service in line with a pledge to eliminate the budget deficit by 2000.

The election has given discontented Québécois the opportunity to vent their unhappiness with the state of the economy and Mr Bouchard's policies. The province's biggest trade unions have withheld support from the BQ.

Some fear that voters will be driven back into the separatist embrace

Mr Parizeau pleaded with the unions last week not to confuse "building a new country" with their short-term interests.

Federalist warnings about the economic costs of separation have previously been dismissed as blackmail and scare-mongering. But some observers suggest many "soft nationalists" who flirted with the BQ in the past have for the first time begun to make a connection between political uncertainty and the province's anaemic economy.

A poor showing by the Bloc on Monday would force Mr Bouchard to rethink his long-term strategy.

The Quebec premier, one of Canada's shrewdest politicians, has tried to hedge his bets since the 1995 referendum. On the one hand, he has held out the promise of another independence referendum within the next 2-3 years. But he has vowed to call the vote only if he is sure of winning.

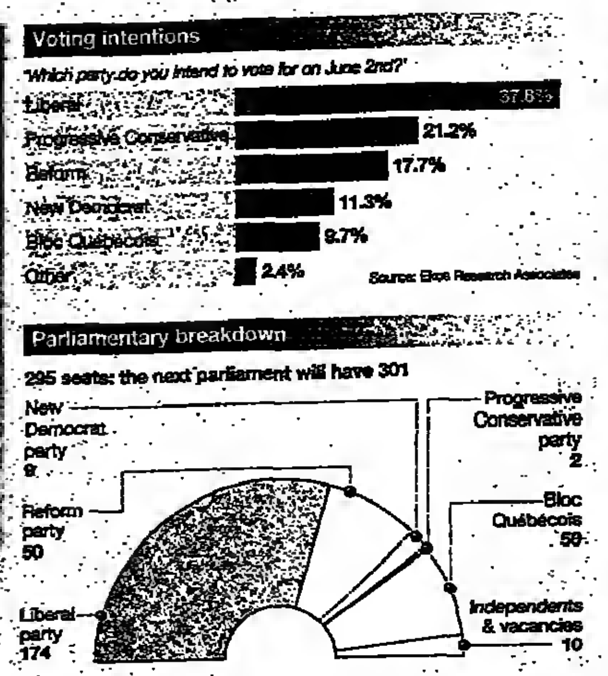
Whether or not the BQ stumbles next Monday, a strong performance by Reform – the current favourite to take over as the official opposition – could give Mr Bouchard the fuel he needs to rev up the independence engines.

Not for the first time in recent Canadian history, anti-Quebec sentiment in the rest of the country could breathe new life into the separatist movement.

Bernard Simon

Canada: chipping off the old Bloc

Jean Chrétien, prime minister



With three days to go to polling in Canada's general election, leaders of the country's ruling Liberal party and its two right-of-centre rivals are focusing their attention on heavily populated southern Ontario.

Ontario accounts for 103 of the 301 seats in the House of Commons. The Liberals are expected to win a substantial number of these seats, but many are expected to produce a tight three-way race with the Progressive Conservatives and Reform.

According to a poll in the Toronto Star yesterday, the Liberals have the support of 41 per cent of decided voters across the country, followed by the Tories (19 per cent), Reform (18 per cent), the social-democrat New Democrats (11 per cent) and the secessionist Bloc Québécois (10 per cent).

But Reform's strength is heavily concentrated in the western provinces of Alberta and British Columbia, and the BQ is campaigning only in Quebec. Each of these two regional parties could thus end up with more MPs than the Tories.

Concern that the Liberals might win only a minority government after Monday's poll helped push the Canadian dollar and domestic bond prices down earlier this week. But the currency has climbed about one-fifth of a US cent in the past two days, trading at 72.42 US cents at midday yesterday.

A trader at Bank of Montreal forecast a further advance in the dollar after the election, with the Bank of Canada expected to sanction a rise in short-term interest rates.

Reform rewrites the rules

Scott Morrison sees western voters tiring of eastern wrangles

Mr Preston Manning, leader of the Calgary-based conservative Reform party, has made a point during his political career of challenging Canadian political orthodoxy. In 1993 he nudged the victorious Liberal party toward more conservative fiscal policies. This time, however, the stakes are much higher as Mr Manning's stance on Quebec separatism threatens to shake national politics to its core.

Mr Manning has vowed to redefine the love-hate relationship between francophone and anglophone voters that has dominated Canadian politics for decades. Unlike other parties, Reform opposes granting Quebec constitutional status as a "distinct society". Instead, the party advocates treating all provinces equally while granting them more autonomy to determine their own policies. And should Quebec insist on separating, Mr Manning has set strict terms under which the party would deal with such a crisis. It is a message that plays well among western voters who have grown tired of watching eastern politicians wrangle over the issue.

Mr Manning's tough-love approach to Quebec has set the agenda for the national unity debate. With solid support among western voters, Reform could become the official opposition on June 2, a prospect that worries politicians and voters in central and eastern Canada.

Mr Manning's approach risks inflaming separatist sentiment in Quebec, and his opponents have spent much of the campaign trying to discredit him. One party leader has said Reform is moving the country toward civil war. Others argue that his policies are extreme and divisive, and could push Quebec from the fold. Whispers of racism, born from his party's call to tighten immigration quotas, continue to haunt Mr Manning. The attacks may have slowed Reform in Ontario but have mostly fallen on deaf ears in the west.

Analysts say Reform, a western protest movement with staying power, is likely to hold on to its 50 seats and could add as many as 10 more as the party makes inroads in rural Ontario. Francophone voters appear to be tiring of the separatist Bloc Québécois, the present official opposition, and support for the Progressive Conservatives is spread thin, making it unlikely they will match Reform's clout in the 301-seat house.

That would force the Liberals, who are expected to retain their majority, to address a new balance of political power that reflects shifting demographics. Gone are the days when Toronto, Montreal and Ottawa dominated the nation's finances, culture and politics. An energy boom in Alberta and massive migration to Vancouver have raised the two western cities on to the national scene. Western voters are now demanding more control over their lives.

Indeed, the Liberals already appear to be responding as Mr Manning redefines the arguments. Mr Chrétien, Canada's prime minister, spent much of this week courting western voters. He said he would refuse to recognise a simple-majority vote in favour of separation in a future Quebec referendum, a remark that hardly helped the Liberal cause in the province.

The business community is watching the campaign nervously. While supporting Reform's conservative fiscal policies, its tax cut proposals and its pledge to shrink the federal government, leaders privately express concern that Mr Manning is unleashing political forces that may get out of control.

Mr Cliff Fryers, Mr Manning's national campaign manager, acknowledges the party's approach is risky, but says trying to appease francophones has not solved the problem. Reform's approach, he says, responds to Quebec's concerns about protecting its cultural identity, while clearing up any misconceptions voters in the province may have that they would be allowed to remain "associated" with Canada.

Analysts wonder whether Reform can make the transition from Mr Manning's personal political vehicle into a traditional party. As founder and only leader, Mr Manning has shaped Reform to his ends, but insiders say he lacks the management tools to run a true political organisation.

His constituents in south-western Calgary, however, appear unconcerned with such matters. Like many western voters, they are tired of eastern politicians raising taxes and arguing about Quebec. Reform, in their view, is the only party that will fight for their comfortable, conservative way of life.

Nasdaq to change price increments

By Tracy Corrigan in New York

Nasdaq, the US over-the-counter stock market which specialises in high-tech companies, will start quoting share prices in increments of $\$\frac{1}{16}$ on Monday, for all stocks worth \$10 or more, following the approval of the Securities and Exchange Commission, the US regulator, earlier this week.

Previously, these stocks were quoted in increments of $\$\frac{1}{8}$. Nasdaq stocks under \$10 are already quoted in lower increments, some as small as $\$\frac{1}{32}$.

The move will "enhance transparency and and price discovery by allowing orders and quotes in smaller increments to be displayed publicly to the market," said Mr Frank Zarb, chairman of the NASD, Nasdaq's parent.

The move could help narrow the gap between buy and sell prices – or spreads – at which Nasdaq stocks trade.

Nasdaq has already imposed new trading rules designed to give public access to better prices, as part of a settlement with the SEC following a report that Nasdaq dealers had kept spreads artificially wide.

An official at the New York Stock Exchange, which also quotes stocks in increments of $\$\frac{1}{8}$, said the exchange was studying the issue but had no deadline for reaching a decision.

Nine die in two Mexico ambushes

By Daniel Dombey in Mexico City

Hundreds of Mexican troops were yesterday searching through the south-western state of Guerrero in the aftermath of two skirmishes with guerrillas from the left-wing People's Revolutionary Army (EPR) which left at least nine people dead.

The developments could alter investment risk assessments in Mexico in the run-up to the July 6 congressional elections. Over the last week, the EPR has twice ambushed the army, a return to armed activity after a period when the group has been relatively quiet. Five soldiers have died, together with four rebel members.

The Mexican army claimed it had captured one of the rebels' top leaders, Commander Hermenegildo.

"It is not a surprise that a month before mid-term elections, the EPR has become more active and it is very likely that, in the coming weeks, the EPR will try to create [more] noise and disturb the upcoming elections," said Mr Rodrigo Brand, an analyst with Deutsche Morgan Grenfell in Mexico City.

Simultaneous attacks in several states last year showed the EPR could be an irritant. But the rebels, thought to be a coalition of the remnants of guerrilla groups from the 1960s and 1970s, do not have the force to be a real military threat.

President praises PM's 'wise steps'

Clinton backs government's call to IRA

By David Wighton, Political Correspondent

President Bill Clinton yesterday gave his full backing to the UK government's demand for a ceasefire by the Irish Republican Army before Sinn Féin, its political wing, can participate in multi-party talks about the future of Northern Ireland.

Mr Clinton reiterated the UK government's call for "an unequivocal ceasefire" and carefully declined to say how long a gap would be required before Sinn Féin could be admitted to the talks.

Speaking to reporters after talks in London with Mr Tony Blair, the prime minister, Mr Clinton praised the "wise and judicious steps" taken by the new government while sending a clear warning to the IRA.

"Obviously, I think Sinn Féin should participate in the talks and I think the IRA should meet what I think has to be the pre-condition," he said. "You can't say 'we'll talk and shoot; we'll talk when we are beppy and shoot when we are not'."

Mr Clinton said peace could be achieved only by the people of Northern Ireland, but pledged that the US would be "very active and involved all the way".

Northern Ireland was one of the main issues the two leaders discussed in a one-hour private meeting yesterday, which was described as "very friendly and very productive".

UK government officials said Mr Clinton had "waxed lyrical" about the work done by Ms Mo Mowlam, chief Northern Ireland minister, in the British government.

Ms Mowlam yesterday also stressed the importance of "inclusive talks" about the future of Northern Ireland, but only after an unequivocal ceasefire.

Speaking after talks in Dublin with Mr Dick Spring, the deputy prime minister and foreign minister of the Republic of Ireland, Ms Mowlam refused to specify a timetable for admission of Sinn Féin to the talks. "It is not constructive to debate that here hut for Sinn Féin to seek clarification from our officials to see what can be achieved on that front," she said.

Ms Mowlam was responding to earlier comments from Mr Gerry Adams, the Sinn Féin president, who said that in meetings with UK officials there had been no indication of how quickly the party could be admitted. "Sinn Féin representatives have not got the clarity they required," Mr Adams said.

Mr Spring called on Sinn Féin to convince the IRA to restore the ceasefire "as quickly as possible". He said: "We want Sinn Fein at the talks. They know what has to be done to be at the table."

In London, Mr Clinton and Mr Blair touched on a number of foreign policy issues, including Bosnia, Nato enlargement and Hong Kong.

On Hong Kong, government officials said Mr Clinton had been "keen to stress that America wanted to help in every way".

Mr Clinton urged the UK to work to implement "the word and spirit" of the 1984 agreement with China. "We will keep faith with the people of Hong Kong by monitoring the transition to make sure civil liberties are maintained and democratic values and free market principles."

But the bulk of the talks were devoted to jobs and the new Anglo-American initiative.

The prime minister's office said both leaders sensed there was a "new agenda" that they could lead by learning from America's success in job creation while at the same time acknowledging the importance of fostering an inclusive society.

"The prime minister felt he was talking to someone who was thinking in the same direction," a government official said.

Officials said there was a "very good atmosphere" between the two leaders, who had already built up a good relationship from previous meetings.

President Clinton (left) and Tony Blair met in the White Room at the prime minister's residence in Downing Street

Company challenged in London seeks US quotation

By Robert Wright in London

A pyramid-type marketing company whose British arm has been placed in receivership after a government investigation plans to go ahead with a quotation on a US stock exchange.

The official receiver was eppointed provisional liquidator of the UK operations of Netherlands-based Vanilla Services on May 20, after the UK government'e trade department presented a High Court patition claiming winding up would be in the public interest. Vanilla claims to have 45,000 members in at least 16 countries, most of them in Europe.

The department's petition is similar to others it has sought in the past year against money circulation and other pyramid-style schemes.

The department said Vanilla'e main operation was a "gold accumulation plan", which it described as a multi-level echeme where payments were "made to members in tha form of gold coins rather than cash".

In spite of the setback, however, the group's internet site and advertisements placed in British newspapers over the weekend continue to claim it is set to be listed on the Nasdaq exchange in the US. The company claims it will gain its listing via a reverse takeover of a quoted company, the same method believed to have been used by Titan – a German-based scheme branded "an illegal lottery" and "pernicious" by the High Court in London – to achieve a Nasdaq listing.

The department said members paid between SFr80 ($56) and SFr3,000 to participate in the Vanilla scheme. The level of benefits they received depended mainly on the number of new members recruited, it said.

Mr Andrew Farmiloe of law firm Howard Kennedy, who will represent Vanilla et the full hearing on June 25, said he would oppose the petition.

"We are opposing it on the basis that we think the petition is wrongly founded, that the business is not an unlawful lottery. We think that it's a genuine business," he said.

Old material in German on Vanilla's Internet site says the pnblic offering is planned for March 1997, with an issue of 40m $2.50 shares. More recent material says it is planned for June or July of this year.

Speaking from the US, Mr Daniel Deubelbeiss, president of Vanilla, said it was a direct sales company whose main business was selling gold coins via the internet.

"Of course, anyone who works as a distributor for Vanilla will be rewarded for every sale he makes, as in any other trade company," be said. "He will be rewarded based on the amount of revenue be brings into the company."

Mr Deubelbeiss added that normal criticisms of multi-level marketing schemes – that the pool of potential recruits would eventually dry up – did not apply to Vanilla because, he said, the market for gold could never be saturated.

"This market saturating thing is an absolutely theoretical thing," he said.

Mr Deubelbeiss, 33, who holds joint Swiss and Israeli citizenship, claims to have a string of media interests in Europe and Israel, including a company producing TV commercials, based in Frankfurt.

Investment is sought in remote areas

By Roland Adburgham in Cardiff

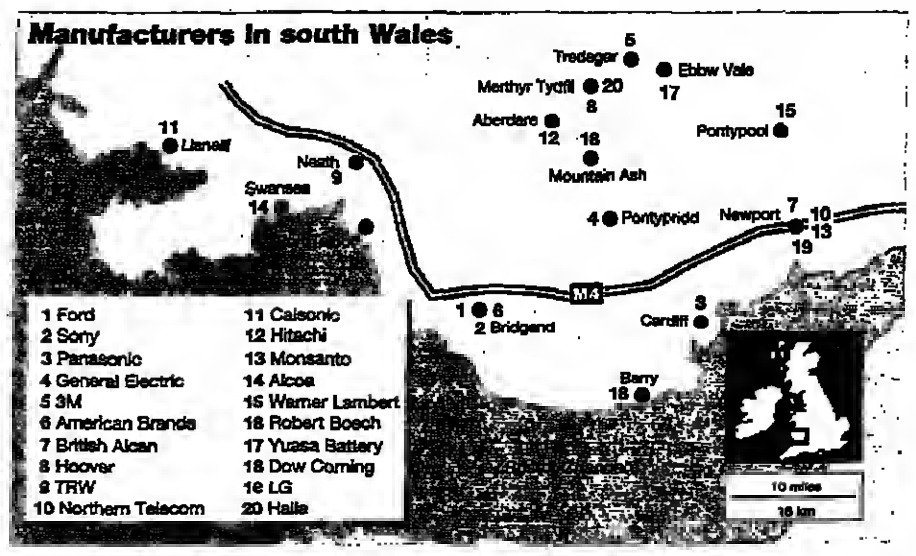
A government strategy to stimulate job creation in the disadvantaged areas of west Wales and the south Wales valleys will be announced today.

Mr Peter Hain, a minister in the government's Welsh Office, is to promote "industrial villages" with companies using information technology to overcome the drawbacks of relatively remote geographical location.

His announcement will coincide with the expected naws today of a joint venture to establish in one of the valleys a components supplier park for the automotive industry.

Most of the inward investment in south Wales has concentrated on the M4 motorway corridor. Most factories established in south Wales by US, German and Japanese companies has been within easy reach of the M4.

It has proved much more difficult to attract companies northwards into the old industrial valleys or to west Wales. But Mr Hain hopes that the creation of "industrial villages" would encourage smaller companies to set up in the valleys to act as sourcing centres for larger manufacturers near the motorway. He believes the proposed villages could offer companies the traditional skills of the mainly ex-mining communities together with affordable sites and high technology.



A stimulus for the strategy is the £1.7bn ($2.8bn) project in Newport by LG, the South Korean electronics group. This will create 6,100 direct jobs and, it is estimated, ebout twice thet number among suppliers. "LG could lead the way towards regenerating the south-west of Wales as well as the valleys," Mr Hain said yesterday.

Despite the "Valleys' Initiative" launched by the Thatcher government in 1988, these areas continue to have pockets of high unemployment and low levels of economic activity.

"The Valleys' Initiative was very effective at making the valleys greener, but left them as virtual job deserts, especially in the western valleys," Mr Hain said.

In some communities, one in three men were out of a job, leading to social stress with high levels of crime and drug abuse.

Blair is warned over choices for top jobs

Mr Tony Blair, the prime minister, has been cautioned by Sir Michael Bett, the watchdog responsible for the integrity of the government machine, against putting any more political appointees into top administrative posts. George Parker writes.

Sir Michael agreed to political appointments to three new jobs in his official residence in Downing Street, but said that further such moves should be debated and approved by parliament.

"If a horde of political appointees were made civil servants, they would not be appointed on the principle of fair and open competition," Sir Michael said. His comments reflect growing concern among senior officials about the increasing number of political appointees being assigned to government departments as special advisers.

Mr Jonathan Baume, general secretary of the FDA trade union for senior government officials, said: "We are worried this is becoming a way of bypassing the rules on fair and open competition by bringing in placemen to service the government."

Questions are being raised about whether Mr Blair should be allowed to appoint Mr Jonathan Powell, his political chief of staff, as principal private secretary. Mr Powell, a distinguished diplomat, became chief of staff to Mr Blair, then opposition leader, three years ego.

Only three groups are on cue for electricity market

By Simon Holberton in London

Just three electricity companies will be ready for retail competition next April and full market opening may not be achieved till March 1999, it emerged yesterday.

Professor Stephen Littlechild, director general of the Office of Electricity Regulation (Offer), released details of the state of readiness of Britain's 14 electricity companies for deregulation. He also outlined penalties for laggards and new proposals for the phasing of competition from 1998.

His announcement represents a further retreat from plans presented as long ago as 1990 for Britain's 25m household consumers to have the choice of electricity supplier by April 1998.

It follows a statement by Mr John Battle, energy minister, on Wednesday underlining government feeling that consumers required "reliable and robust" arrangements for competition. Professor Littlechild said he was not "downbeat or disappointed" that only three companies would be ready for competition by April. "One has to recognise the immensity of this task."

Competition in electricity is a large exercise in information technology and the Offer chief indicated sources of delay lay with the "vagaries" of computer systems.

Eastern Electricity, Seeboard and Yorkshire Electricity were the companies Offer was confident would be ready for competition. Their computer systems will be ready for six months of trials beginning in October.

The remaining 11 companies would become ready for competition between May and July next year. They also would face six months of tests, followed by a controlled market opening of a further six months.

Penalties for laggards will include their not being allowed to compete outside their franchise area till others can in theirs.

Australian media group may help to build cinema complex on bank of river Thames

Warner venture set to win London site

By Scheherazade Daneshkhu and Alice Rawsthorn

Warner Village, the multi-screen cinema operator, is expected to be the first large tenant on the £500m ($815m) Battersea Power Station development site by the river Thames in London. The long struggle to turn the landmark building into a leisure and retail complex is reaching an end.

Warner Village is a joint venture between the Warner Bros subsidiary of Time Warner, the US entertainment group, and Village Roadshow, the Australian media concern. It is expected to build a large cinema complex on tha top two floors of the power station. It would not comment yesterday.

Another prospective tenant is Lantana, the Los Angeles-based film post-prodnction company, which would use the site as a base from which to service the burgeoning UK film production sector.

Parkview International, the Hong Kong-based property company which owns the power station and 14ha of surrounding land, plans rides, themed leisure areas and a variety of retail and food and drink outlets in the art deco interior. The monumental brick building has lain derelict for more than 10 years after a series of setbacks. But Parkview has been given the go-ahead to begin work after signing a legal agreement with Wandsworth Borough Council, the local authority responsible for the site, earlier this month.

Tha agreement requires Parkview to improve public transport to the area by building a rail station and a riversids walk. The first phase of the development is expected to open in 2000.

Plans to turn the power station into a leisure complex were halted in 1990 after a scheme headed by Mr John Broome, the property developer, went into liquidation.

Parkview, which is owned by the Hwang Brothers of Hong Kong, then acquired the site but received a setback last year after BAA, the airports operator and Really Useful Group, the entertainment company headed by Sir Andrew Lloyd Webber, decided against joining the redevelopment scheme.

Parkview has a single partner in Gordon Group, the US retail property company which owns the Caesar's Forum shopping complex in Las Vegas. Plans for the surrounding land include two botels, theatres, film studios and offices. Cirque du Soleil, the Canadian circus group, is understood to be in discussions with Parkview over building one of the theatres.

The Battersea development forms part of an aggressiva UK expansion strategy for Warner Village, which is already one of the UK's largest cinema chains. It plans to open 23 new multiplexes and megaplexes by the end of the decade, including the country's biggest single cinema in the English Midlands city of Birmingham.

Watchdog in waiting for new Lloyd's

Reforms likely to see market face independent regulation

The Labour government's reforms of regulation in the City of London are likely to bring the Lloyd's of London insurance market under the aegis of an independent watchdog.

It is two years since tha Treasury published a damning assessment of how Lloyd's has been regulated in the past. The report blamed an inadequate self-regulatory regima for the problems which drove tha market almost to collapse and ruined many Names, the individuals whose assets had backed it.

"Part of the problem at Lloyd's was that a 20th century insurance market was still regulated and run upon the lines of a private club, in which difficulties were bushed np and solved behind closed doors," the report said. "A rigorous system of market regulation, requiring better standards of professionalism, would surely have helped."

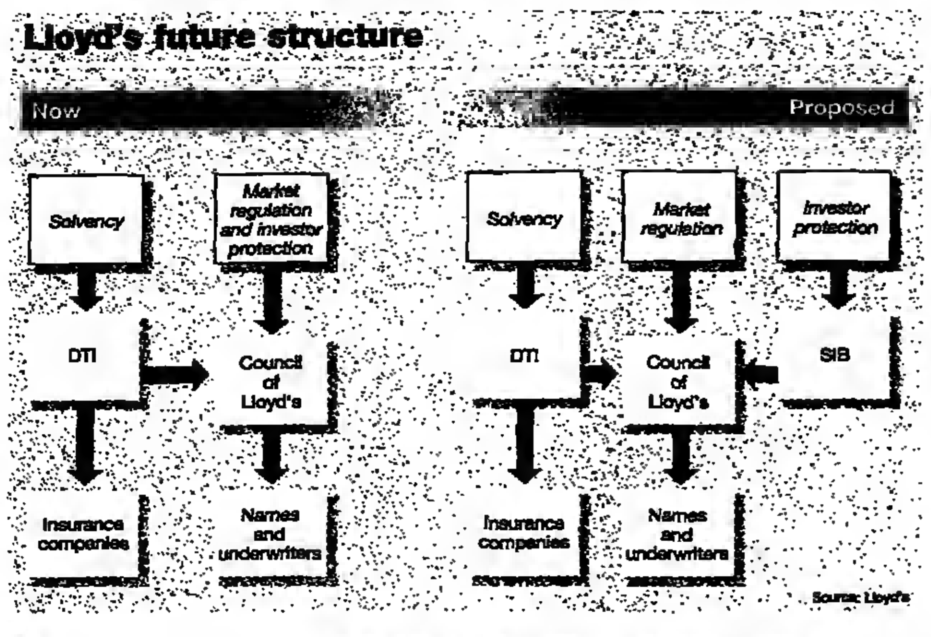
Lloyd's has looked after its own for 25 years. It is governed by a ruling council which has legislative powers to discipline underwriters and compensate Names should dishonesty or frand bankrupt tha companies run by market professionals.

However, when becoming a Name suddenly became fashionable amid an explosion in insurance rates during the 1980s, Lloyd's failed to check rigorously the personal wealth of new members.

It also allowed negligent underwriting to flourish. Some syndicates at Lloyd's wrote too much re-insurance for natural catastropbes, which meant liabilities from a string of disasters in the late 1980s and early 1990s went out of control.

Since then, Lloyd's has managed to rid itself of those liabilities by reinsuring them into Equitas. But a recommendation made in the Treasury report that Lloyd's sbould no longer regulate its own affairs has stuck.

Earlier tbis month, Lloyd's pnt forward plans for it to be overseen by the Securities and Investments Board, the City of London's chief watcbdog organisation. It also suggested that the government's Department of Trade and Industry should be able to act at an earlier stage than at present if there were again a threat to Lloyd's solvency.



> 'Part of the problem was that the market was still run like a private club'

The proposals were published before Mr Gordon Brown, the chancellor of the exchegner, announced that the SIB would take responsibility for financial services regulation and would be answerable to the Treasury. Lloyd's argues it would fit neatly into the SIB's new structure. The chancellor did not mention Lloyd's in his speech, but the Treasury says it "sees some attractions" in the insurance market's proposals.

"There's a strong case that Lloyd's should be regarded as an insurance exchange," says Mr David Gittings, director of regulation at Lloyd's. "While the Names are sole traders and not investors, there are some similarities in the role the SIB would play and what it already does elsewhere."

Underwriters at the market are cantions while it remains unclear if responsibility for insurance will shift from the DTI to the Treasury, as the government hinted last week. Some fear the SIB may not have the experience to do the whole joh.

"An expert in underwriting should regulate underwriting and an expert in investor protection should do that," said one.

How easy it will be to split the two roles as Lloyd's envisages them is also uncertain.

"There are some overlap problems since both the DTI and the SIB will bave some common interests," says Mr Gittings.

One instance is that the competence of professionals affects both Names and the solvency of Lloyd's.

Lloyd's has already taken steps to meet some of the other recommendations contained in the Treasury report of two years ago. It is cousidering, for example, how to reintrodnce professional indemnity insurance covering professionals against the risk of major loss arising from clerical errors.

Christopher Adams

$33m gift to Oxford Islamic centre

By Richard Wolffe and Simon Targett

Oxford Universlty is expected to receive up to £40m ($65.2m) to fund its new centre for Islamic studies after King Fahd of Sandi Arabia personally pledgad £20m ($32.6m) towards tha construction of a new centre.

The Sandi donation was announced by Prince Bandar bin Sultan, the Saudi ambassador to the US, at a private dinner with the Prince of Wales on Wednesday. Sources close to the project say the donation is likely to be matched by other wealthy individuals, particularly to endow teaching positions at the centre.

King Fahd's donation represents one of tha largest single gifts in Oxford's history, and a concerted effort to establish Islamic studies at the heart of the British education system.

The ambitious project has run into determined opposition from teachers at tha university wbo object to plans to locate the new centre on a greenfield site near the heart of tha city.

Dr Robert Gasser, bursar [senior manager] at the university's Brasenose College, said: "There is no question of having anything against Islamic studies whatsoever. This is essentially a semi-rural area and such a large building – although very handsome and dignified – is an overdevelopment."

The row echoes the controversy over the £40m plans to build a new business school in Oxford, which is half-funded by the Saudi entrepreneur Mr Wafic Said. The university's original plans, on a greenfield site in the same area as the Islamic cantre, were decisively rejected by teachers earlier this year. A new business school site is expected to be announced today.

Minister warns lottery on 'profiteering'

By Raymond Snoddy in London

Mr Chris Smith, the chief minister responsible for the National Lottery, warned yesterday that it was intended for prize winners and good causes and not for "profiteering".

The angry comments came after publication of the financial results of Camelot, the consortium which runs tbe lottery. The members of Camelot are Cadbury Schweppes, the UK food and drink group; De La Rue, the security printers; Racal Electronics; ICL, a UK offshoot of Fujitsu; and GTech, the US lottery equipment supplier. The results showed that total payments to the 10 executive and non-executive directors for the year to the end of March 1997 had risen by 40 per cent to £2.35m ($3.8m).

The results also made clear that Camelot has applied to the Office of the National Lottery, the game's regulator, for permission to launch a television game sbow designed to boost the sales of Instants – a scratcbcard game – whicb bave fallen from £40m a week to around £15m a week. The show, to be launched on BBC television at the end of the year, will allow scratchcard winners to compete for bigger prizes.

Mr Smith has called Sir George Russell, the Camelot chairman, to a meeting to account for the increased payments to executives. The meeting is expected to take place on Monday.

Mr Smith said on BBC radio yesterday that he planned to warn Camelot it could put itself out of the running for a renewal of the present National Lottery contract, which ends in 2001.

Camelot will next week robustly defend its positioo as not just the largest lottery in the world but also the most efficient, according to an independent study.

'Pocket superpower' under fire

The defence review is a strategic labyrinth, Bernard Gray writes

The government's defence study, announced on Wednesday, will be the first examination of the defence ministry to bear the formal title "Defence Review" since the ill-fated effort by the Conservative government of Margaret Thatcher in 1981.

That review recommended the near-scrapping of the Royal Navy's surface fleet just months before Argentina invaded the Falkland Islands. Not surprisingly, the review paper was dumped.

The architects of the new review will face equally difficult questions. The Labour party has chosen to tackla the issue head-on. As the main opposition party bfore the May 1 general eiection, it argued that the Conservative tactic of spreading the ministry's budget ever more thinly across a full range of military capabilities led to insufficient strength in depth in key areas. But bolding the review will force the new govarnment to face the difficult choices which it suspects the Conservatives shirked.

In recent years, tbe defence ministry has pursued a policy of acting as a "pocket superpower", maintaining the capability of conducting almost every kind of military operation. Tba logic of this position is that having such a wide spread of forces gives Britain flexibility to deal with whatever turns up – provided it is reasonably small. Besides, the argument goes, in any larger conflict, tbe UK would almost certainly be fighting in alliance with the US. As a department desperate to preserve Britain's "special relationship" with tbe US, it suits the ministry to be able to add a small British contingent to whatever type of force the US fields.

Mr George Rohertson, chief defence minister (centre), yesterday heard complaints from Gulf War veterans that they had suffered mystery illnesses since the conflict. Mr John Reid, armed forces minister, said: "I will leave no stone unturned in order to get to the truth"

Unfortunately, as the ministry's budget bas shrunk and the cost of troops and equipment has continued to grow, the cracks have begun to show in the armour of the "pocket superpower". In Bosnia, for example, some specialist troops have found themselves on deployment far more frequently than the ministry's rules decree.

The UK also found it difficult to field an operational tank brigade during the Gulf war. Since then, the Royal Air Force has been hard pressed to keep sufficient aircraft in the sky to meet its Bosnian, Middle Eastern and UK commitments. This led some Labour defence analysts in opposition to the conclusion that one large defence task would have to be sacrificed to bolster the remainder of the forces. So, while the new review will start by assembling a strategic view of the UK's place in the world and tha forces needed to maintain it, the crunch will come if the government sticks to the view that something has to give.

At the top of the vulnerable list is the heavily armoured division of 24,000 troops stationed in western Germany. Once central and eastern Europe become the source of new Nato members, these forces are likely to find themselves a long way from any front line.

Equally, some of the navy's surface ships could go. Britain has a permanent presence around the Falklands, and in the Carihbean and the Gulf. With back-up, this accounts for almost 10 of the Navy's 35 escort ships, all of which could be axed if tensions were reduced or the priorities changed. Eurofighter, at present exempt from the review, could be included if Germany cootinues to block funding for the four-nation programme.

Ampbibions landing forces, untouchable since the Falklands conflict 15 years ago, could he a target, as could the Navy's extremely expensive nuclear bunter-killer submarines or its hoped-for next generation of aircraft carriers.

Significantly, in its own defence review last week, the US shifted towards spending on "tomorrow's battlefields" and away from maintaining troop levels or weapons procurement.

If the UK wants to keep up with its closest ally, it may have to invest heavily in technologies such as surveillance equipment, command and control computing and precision weapons for the "digital battlefield". Yet the UK may not be able to afford that invastment alone, thereby increasing its dependence on US technologies and decreasing its capacity for independent action.

The mere fact that so many strategic decisions need to be taken argues strongly that a review was indeed necessary.

UK NEWS DIGEST

Empire 'poses tax burden'

Britain's shrinking empire – to shrink further when Hong Kong is handed over to China at midnight on June 30 – represents a significant potential burden to the UK taxpayer, according to a report released today from the National Audit Office.

The report on Foreign Office efforts to reduce the risk of unexpected charges to the UK government said that the country "remains exposed, especially from financial sector failures, corruption, drug trafficking, money laundering, migrant pressure and natural disasters".

When Hong Kong's 6.2m people become Chinese, some 180,000 people will remain in 14 separate territories. The largest remaining in terms of population will be Bermuda, in the North Atlantic, with just over 60,000 people. The Cayman Islands, one of five Caribbean dependencies, has 32,000 people and Gibraltar 28,000.

Since 1990-91, British aid to the territories has amounted to £153m ($249.39m). However, the so-called contingent liabilities are significant. Even when Britain pulls out of Hong Kong, a liability of £130m for the pensions of public officials there will remain. The threat from drug traffickers to the Caribbean territories remained one of the most serious problems, the report said.

Stephen Fidler, London

■ SECURITIES AUTHORITY

Investment firm fined $105,000

Quilter & Co, the London private client investment manager and stockbroker, has been fined £65,000 ($105,950) by the Securities and Futures Authority for control failures in its dividend department and back office. The fine follows the discovery of accounting problems in 1992-95, including the failure to bank dividend payments, which lost Quilter £38,000 and led to the conviction of a probationer employee for false accounting.

Quilter could have faced a larger fine, but the SFA took into account the disruption to its business from the 1992 bomb in London, which devastated its offices and forced it to move twice in a matter of weeks. A Quilter official said no clients or counterparties were affected in any way by the problems.

George Graham, London

■ CANADA LIFE MANAGEMENT

Company breached Imro rules

Imro, the fund management regulator, yesterday announced that it had fined Canada Life Management £50,000 ($81,500) for breaching several of its rules. Between March 1995 and June 1996, Imro found that the company failed to invest Pep and unit trust customers' money on time, incorrectly priced seven unit trusts and failed to bank client money on time. The company has paid compensation of £57,965 to 901 unit holders and paid another £18,843 into tha unit trusts. It has also agreed to pay Imro's costs of £23,992.

William Lewis, London

■ EXPORT TRADE

European rivals outperformed

UK exporters have continued to outperform their European rivals this year in spite of being handicapped by the continuing high exchange rate of sterling. Since August last year the pound has risen by about 20 per cent against

the D-Mark and the French franc. The UK Office for National Statistics said yesterday that the country's trade deficit in March with the rest of the European Union disappeared to a negligible £20m ($32.60) after a £290m deficit in February. The value of imports from EU countries during March fell by 2.5 per cent, while UK exports to EU member states rose by 1 per cent. Despite the pound's high level, the ONS reported that exports to Germany and the Netherlands were higher in the first quarter of this year.

The UK's world trade deficit in March was also better than even the most optimistic forecasts. The ONS said the total deficit was £671m, well down on February's total of £758m. Most analysts had predicted a deficit of about £900m.

Richard Adams, London

■ SPORTING INVESTMENT

Harrods boss takes over soccer club

Mr Mohammed Fayed, owner of the Harrods store in London, yesterday became chairman and the biggest shareholder of Fulham soccer club in the capital. He said he would invest heavily in the 118-year-old club and restore it "to its former glory".

The takeover follows tha resignation of Jimmy Hill as chairman last week, when he said he would welcome a successor with a financial muscle to make the necessary ground improvement.

The new chairman's first step will be to buy the ground's freehold for £7.5m ($12.22m) from Bank of Scotland. Then the club's new parent, the Al Fayed-owned Fulham Leisure Holdings, will plan the redevelopment of the Craven Cottage stadium.

Temporary contracts may be the answer for some executives, says **Richard Donkin**

Managers reap an interim dividend

In the world of mergers, one thing is clear: two into one does not go, especially at senior management level. And if the scale of recent mergers tells us anything, it is that management clear-outs are going to continue.

The future may appear bleak to someone who has just lost a job, but this need not be the case if people can adjust to working on temporary contracts.

Skilled managera are likely to be in demand from companies seeking to buy temporary expertise. This market for so-called interim managers has grown markedly in the past 10 years to the stage that it is now worth something like £400m ($650m) a year in the UK, according to Russam GMS, a consultancy specialising in interim management.

Its latest report, which surveyed some 700 people, estimates that some 10,000 senior executives are now operating as interim managers and independent consultants in the UK. And for many, it is well-paid work. The top 15 per cent of interim managers are earning, on average, more than £75,000 a year. Average earnings for temporary executives were £47,000 last year, with a forecast of £51,000 in 1997.

The biggest earnings are achieved by executives working in information technology, who are grossing £56,000 a year on average. Prodnction executives earn the least on average, making £43,000 a year.

Interim management is one of those jobs where grey hair may be an asset: 60 per cent of those surveyed were aged between 45 and 55, while 38 per cent were between 48 and 53. And most are men, with women making up less than 5 per cent of the total. According to the research, two-fifths took up interim management after being made redundant, but nearly a third of them say they do not want to go back into a permanent job.

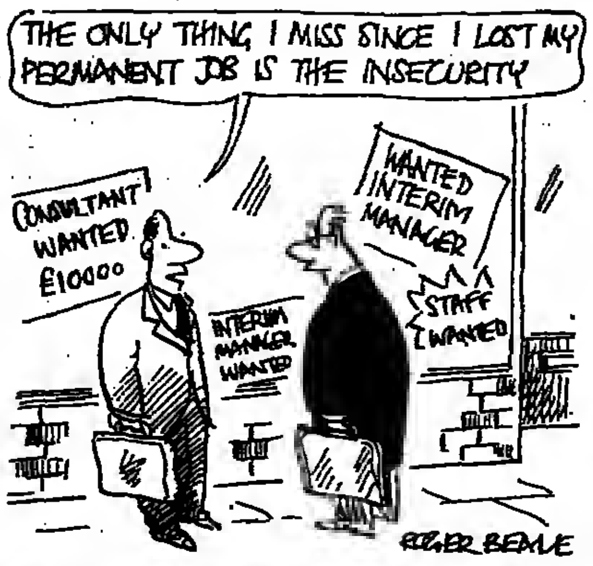
Only one in 10 said they were actively looking for a full-time job. The rest said they were not desperate to find full-time work, but that they could be persuaded.

GMS Market Research Report. Russam GMS, 48 High Street North, Dunstable, Bedfordshire LU6 1LA, UK. +44 1582 666970. £29.

All change

According to the Industrial Society, 94 per cent of employers in the UK had been through or were going through some kind of culture change. It seemed surprised: it should not be. Advances in information technology and the influence of business process re-engineering have forced companies to adapt their structures.

But people do not like change. The society found that no more than 9 per cent of employaes wanted to change the way tbey worked. If anything, this figure looks quite high. So who are these employees who are eager to embrace change?



We know who is not keen on change. Long-serving staff are the most resistant, as is management, according to more than a third of the replies.

Unions, however, ofteo perceived as tha enemy of change, are now no longer a significant source of resistance, listed by just 9 per cent of those surveyed.

This too should not be surprising, according to a study by Naercio Menezes-Filho, a researcher et University College, London, published in the latest edition of the Economic Journal.

Menezes-Filho suggests that anti-union legislation has made unions less confident of their members' willingness to take industrial action.

Whether or not corporate transformation is for the best, it is to be happening everywhere. Archie Norman, the chairman of Asda, the UK supermarket group, engineered a radical change programme after his arrival in 1991. He told delegates at a confarance on culture change last week that the turnround in Asda's fortunes was oot achieved without hard-nosed cost-cutting at the start of his tenure.

This was followed by a series of employee-focused measures, including a move away from temporary working, broadening employee share ownership, and rewarding employee ideas and initiative.

Even Norman, bowever, admits that changing the employee culture is one of the most difficult objectives to achieve. For example, he tried to get security staff to double up as greeters, an idea he drew from Wal-Mart in the US. So far, he coofesses, the idea has met with limited success.

Tha answer may be to recruit people who can influence their oew colleagues. A simple "hello" should be possible.

Wasted hours

How much time et work is wasted? The answer, according to British Telecommunications, is £47bn-worth ($76.6bn) a year. This figure was arrived at after some 300 directors and managers were asked to keep diaries of their time in work, which revealed that they "lost" about a quarter of their average working week of 56 hours, equivalent to about £7,000-worth over a year.

But wbere does the time go? According to the report, time-wasting activities include inputting documents, unnecessary staff matters, daydreaming and taking messages.

However, this says more about the attitudes of management. Many consultants belping bnsinesses to increase their capacity to innovate actually encourage managers to find more time to daydream, as this is often tha way that ideas are born.

Tbe most successful attempts at empowering workers have given people the freedom to make their own decisions, which in turn has altered staff relations for many middle managers. This makes their job much more that of an administrator or, in some circumstances, coach or enabler.

Much of the wasted time, as the report suggests, may arise from managers working longer bours because they cannot let go of old habits. It seems ironic that the report finds so much time is wasted when managers are also complaining they are overworked.

Equities

Emerging Markets

NatWest Markets is one of the world's leading integrated investment banks. Its global equities division, NatWest Securities, is rated as the top broking firm in the UK, and is an established player in the Emerging European markets. We are committed to developing and expanding our activities in this region, which is of strategic importance to the bank.

To support this expansion, three new positions have been created to join the existing team.

RUSSIAN ANALYST
Moscow Based

We are looking for an experienced equities analyst to provide primary coverage of all Russian non-energy stocks and to support the UK based oil and gas research analyst. An initial period of six months will be spent working in London.

You will be a fluent Russian speaker, preferably a Russian national, with excellent verbal and written communication skills. You will have a minimum of one year's experience in equity markets, ideally with some experience covering Russian stock, and will have an MBA or equivalent business/finance qualification. Ref: 716.

RUSSIAN SALES
London Based

We are looking for an experienced equity sales person who is able to demonstrate the ability to self-start an international research-driven sales operation. Extensive travel is envisaged.

You will be a graduate with a minimum of two years' experience in sales, research, corporate finance or fund management in Russia. Fluency in English is essential and Russian would be a strong advantage. You will have exceptional team-building, verbal and written communication skills. Ref: 717.

SOUTHERN EUROPEAN ANALYST
London Based

We are looking for an analyst to provide full support to the two analysts covering Turkey and Israel.

You will be a finance/economics graduate with at least two years' experience of equity research with a recognised institution and excellent command of the English language – both verbal and written. Experience and/or language skills in at least one of the markets is essential. Ref: 718.

NatWest Markets is a meritocracy and you will be rewarded competitively based on your performance and contribution to the business.

Please send your CV quoting the appropriate reference, to: Alastair Lyon, The Response Handling Service, Associates in Advertising, 5 St John's Lane, London EC1M 4BH.

NWM

NATWEST MARKETS

HSBC Markets

HSBC Markets is seeking three qualified candidates to join its highly successful Global Structured Finance Group. The Tokyo team, with responsibility for origination, structuring and executing Asian based transactions is looking to build on its recent widely publicized successes. If you are currently working for a major international investment bank and are looking to join a global team of experienced professional responsible for managing the entire transaction instead of simply "sales" or "origination" we are interested in meeting with you.

The three successful candidates will be able to demonstrate the following:

Senior Transactor
- Extensive experience in originating, negotiating and closing structured transactions which may draw on your background in capital market products and derivatives;
- A track record showing your capability to generate fee income in line with the value you have contributed to client driven, cross border transactions;
- Strong relationships with issuers and/or investors.

Junior Transactor
- Strong understanding of structured finance and asset securitization transactions;
- Numerate with good analytical and computer skills;
- Minimum of three years experience in international finance or investment banking.

Team Assistant
- Strong command of both spoken and written English;
- Efficiency in computer (MS Office applications) and organizational skills;
- Work experience in foreign bank or securities firm preferred.

For each of the above positions, a high degree of emphasis is placed on self-starters with excellent presentation and interpersonal skills. International experience, particularly in Asia, would be an advantage. Each position offers significant scope for personal development and advancement. Salaries and benefits shall be competitive and commensurate with experience.

Interested parties should contact Human Resources Department at **HSBC James Capel Japan Limited**, Tokyo Branch, Kyobashi Itchome Building, 13-1, Kyobashi 1-chome, Chuo-ku, Tokyo 〒104 Tel: (03) 5203-3747

NEW BUSINESS FELLOWSHIPS AT OXFORD

Templeton College, Oxford University's newest graduate college and home of the Oxford Advanced Management Programme, is embarked on a period of rapid and successful growth. Faculty enjoy opportunities to pursue an exciting mix of high quality research and dialogue with the most senior levels of management worldwide.

We are currently recruiting for four Fellowships:

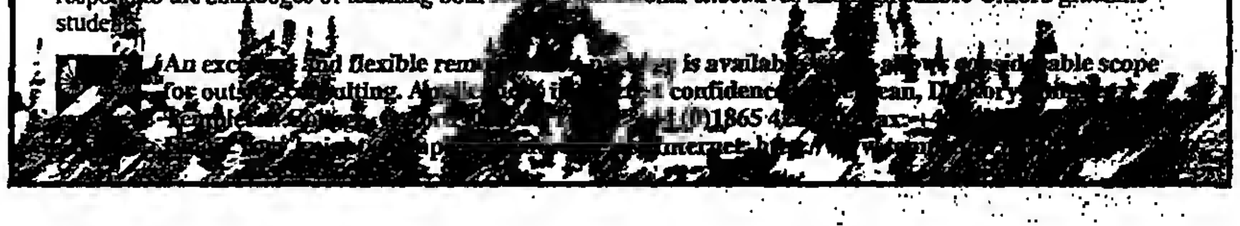
BUSINESS POLICY/STRATEGIC MANAGEMENT
Specialisms should include changes in the global business environment, industry structures and the dynamics of competition, and consequent new imperatives for corporate strategy and the pursuit of competitive advantage.

STRATEGIC MARKETING
We are seeking faculty with extensive knowledge of marketing principles and practices but with particular specialisms in international and service sector marketing.

LEADERSHIP & ORGANISATIONAL TRANSFORMATION
Candidates should have the ability to relate individual and group behaviour to corporate strategy, and the skills and experience to teach and operate at the highest executive levels.

OPERATIONS & SERVICE MANAGEMENT
Candidates should have broad and detailed knowledge of effective operations management and its contribution to customer service and the creation of strategic competitive advantage.

We are looking for faculty with established ... reputations and the proven competence and confidence to respond to the challeoges of teaching both ... international executives and high calibre Oxford graduate students.



An ex... and flexible rem... is availab... considerable scope for out... consulting. A... confidence ... Dean, D... Templeton College, O... +44 (0)1865 4... internet: ...

A Career Without Boundaries

Financial Analyst — Paris

GE Capital is one of the world's largest and most successful financial services companies, and is part of the $79 billion GE Company. With worldwide property assets in excess of $18 billion our Commercial Real Estate Financing Services provides financing solutions and customised high-value services for commercial real-estate properties.

The ability to handle complex transactions quickly and without syndication has led to strong growth in Europe, and this has lead to the need to strengthen our team in France.

We now need a Financial Analyst to take a key role at our Paris Headquarters. Your brief will be to develop, apply and manage financial models to value and structure large property portfolio acquisitions and financings internationally. You'll create financial models to generate projected economic returns for a variety of structured finance products. We'll also look to you to improve our operadons and enhance competitiveness through the application of oew technologies. It's a role that will involve interaction with internal functions and senior management.

To succeed in this high profile position, you'll have a BS or BA degree in Finance, Accounting, Computer Science or Engineering. Alteroatively, you will be a Diplômé Grandes Ecoles de Commetce or d'Ingénieurs. Previous work experience in a financial services environment is a plus. Bilingual in French and English, you'll have a well developed aptitude in financial modelling, structuring and analysis. Able to travel globally when needed, you'll have strong presentation skills, be highly modvated, with creative flair and the ability to innovate. A relevant professional qualification would be advantageous.

In return for your commitment, we can offer an attractive salary package with strong career prospects within an interoational market leader.

To apply send your career and current salary details in to Kim Bradley, GE Capital Europe*, Commercial Real Estate, 19, avenue de l'Opéra, 75001 PARIS - France.

GE is an equal opportunity employer

** Not connected with the English company of a similar name.*

USA*

GE Capital Europe
Commercial Real Estate

Leading Global Bank

Team Head, Investment Banking

City — To £100,000 + Bonus + Benefits

Our client is a long established international bank offering a full range of investment banking, treasury and commercial banking products. An exciting opportunity now exists for a highly qualified and talented individual to manage a group of Associates in a marketing/origination capacity. Working closely with senior investment bankers on global client relationships, the appointee will:

- drive the identification and development of new business with key international clients;
- lead a sizeable group of Associates and direct work flow;
- ensure continued development of the team, both collectively and individually;
- develop corporate finance, debt/equity finance and structured finance solutions to service clients' needs on a pan-European basis.

Candidates should be in their late twenties to mid thirties, probably with a financial or MBA qualification. Previous investment banking experience should be combined with management ability, a strong commercial sense and high levels of drive and energy. Other attributes will include first class presentation and communication skills and the ability to work effectively at senior management level. Fluency in other European languages would be an advantage but is not essential.

Applications from less experienced individuals will be considered for Associate level positions within the team.

Please send a full CV in confidence to GKRS at the address below, quoting reference number 713J on both letter and envelope, and including details of current remuneration.

GKRS

SEARCH & SELECTION

86 JERMYN STREET, LONDON SW1Y 6JD. TEL: 0171 468 3800

A GKR Group Company

Leading Italian Company
with Major International Operations

seeks

GENERAL COUNSEL

for

International Operations

Experienced in Joint Ventures, International Securities, Project Financing and Corporate Compliance

To be based in Italy with responsibility for a team of 10 Legal Personnel

Salary and benefits above market. Knowledge of Italian and other European Languages preferred.

Please reply enclosing CV and covering letter to Box Number 97/272, Blei SpA, Via Degli Arcimboldi 5, 20123, Milano, Italy

APICORP

الشركة العربية للاستثمارات البترولية

ARAB PETROLEUM INVESTMENTS CORPORATION

APICORP is an inter-Arab Corporation established by the member states of OAPEC to finance and invest in petroleum sector projects. Total assets are approximately U.S.$1,350 million.

The Corporation, based in Al-Khobar, Saudi Arabia, now wishes to appoint to its Project & Trade Finance Group:

Project and Trade Finance Officers

with experience, in particular, of:

- Project and/or Trade Financing Structures.
- Medium Term Credit Documentation.
- Syndicated Lending.
- Relevant internal reports and memoranda.

Candidates, who are likely to be in their early 30's, are expected to be ambitious graduates, well trained in credit analysis and with appropriate P.C. skills. They should possess a thorough knowledge of spoken and written English. Whilst Arabic is not essential, it is an added advantage. A knowledge of French will be similarly appreciated.

Candidates should already be working in an international banking environment or, alternatively, in the finance department of an international petroleum company.

The successful candidates will work together with highly qualified and experienced colleagues of different nationalities. They will be offered exciting and rewarding opportunities to acquire an in-depth knowledge of financing of the petroleum sector throughout the Arab world.

Each appointment will be for an initial 2 year contract, renewable. In addition to the highly competitive tax free salary, there is a comprehensive benefits package which includes free fully-furnished accommodation, transportation and education allowances, medicare, relocation expenses and a contributory pension scheme.

Applications in the strictest confidence may be sent to:

The Administration & Human Resources Manager
Arab Petroleum Investments Corporation, P.O. Box 448,
Dhahran Airport 31932, Saudi Arabia

Communicate

vb. to exchange (thoughts) or make known (information or feelings) by speech, writing or other means.

Investment Communications Executive

German Markets

As the world's largest independent investment management organisation with managed funds in excess of $520 billion, Fidelity appreciates the value of timely, accurate market information.

Our Investment Communications team is responsible for the effective flow of information between investment specialists and their customers and is currently looking for an experienced analyst or investment journalist to join us as an Investment Communications Executive, primarily to support the German marketing team. Liaising closely with fund managers, you will provide up to date market and sales information, ensuring that all relevant parties are kept fully briefed on the economic and stock market environments.

This is a highly specialised role demanding a degree or equivalent in an economic or business related discipline, together with fluent German and English. We seek a team player with first class interpersonal skills and outstanding writing abilities in both languages, which should be supported by experience of the equity and bond markets. Exposure to a broking or asset management environment, ideally including knowledge of Micropal, Datastream or Bloomberg, would be particularly advantageous.

The unusual combination of attributes we seek will be reflected in the attractive remuneration package and career development opportunities on offer. This role, although based in the UK, will involve some overseas travel.

If you have these skills and more, please write enclosing a full CV and indicating salary details, to Chris Woodman, Fidelity Investments, Oakhill House, 130 Tonbridge Road, Hildenborough, Kent, TN11 9DZ. Fax: 01732 832792.

Fidelity Investments™

WANTED

HIGHLY PROFESSIONAL, ADVENTUROUS BOND/SWAPS MARKET SPECIALISTS FOR EXCITING OPPORTUNITY IN ASIA

We are a highly successful brokerage operation dealing in a wide of multi-currency debt instruments. Our particular focus is in the higher yielding "value" sectors of the market and our products range includes illiquid eurobonds and MTN's, asset/swap packaging, and the marketing of credit derivatives and other structured assets.

Our base is currently Sydney, from where we co-ordinate our marketing effort into all the major financial centres in the Asia Pacific region. We plan to open an office in Singapore in the near future. Our business forms part of an extensive global distribution network, linking closely with our offices in London and New York.

Due to exponential growth of our business we are seeking to add one or two more professionals to the team. The successful candidate(s) will ideally have the following qualities:

- A proven track record in the bond or derivative markets, either in a sales/broking or a trading/product management background.
- They would have developed, or feel that they have the capacity to develop, a customer base in one or more of the Asian centres. Proficiency in one or more Asian language would be advantageous.
- Most importantly we require people who have ambition, allied with entrepreneurial flair and the capacity to expand a successful business. This position will attract people who desire to work in a non-bureaucratic environment and are seeking direct control over their professional situation.
- We will also consider applications from graduates in economics and business studies who feel they have the skills and drive to succeed a challenging business environment.

Remuneration is by way of a competitive salary and unlimited bonus based on performance. Equity may over time be available to an individual who demonstrates an ability to add significantly to the business, both through their strong performance and by further development of our business franchise.

If you feel this is you, then send your resume to Lawrence Harding, Managing Director, CM-ICAP Pty Ltd., PO Box 890, Grosvenor Place Post Office, Sydney 2000.

CM-ICAP Pty Ltd

A member of the INTERCAPITAL group of companies

National Bank of Bahrain

بنك البحرين الوطني

National Bank of Bahrain is the leading commercial bank in Bahrain with assets in excess of US$ 2 billion and about 550 staff. The Bank now invites applications from suitably qualified and experienced professionals for the position of:

HUMAN RESOURCES SPECIALIST

Major responsibilities

- Review and develop the Bank's Human Resources strategy in line with business objectives.
- Identify training needs and develop and maintain training programmes based on job competencies and business requirement.
- Establish career paths, succession and replacement plans, developing nationals for management and professional jobs.
- Determine current and future manpower needs and recommend appropriate external/internal recruitment to fulfill requirements.
- Develop and conduct in-house training programmes and liaise with local/international training institutions.
- Identify and recruit suitable candidates for official positions.
- Conduct induction and orientation programmes.
- Play the role of culture change agent.
- Coordinate the activities of Business Process Re-engineering initiatives.
- Initiate and participate in job evaluations.

Position requirements

- University Degree in the related field.
- At least 5 years experience in the Human Resources Department of a large bank.
- Hands-on Human Resources Information System development.
- Strong analytical, evaluative and planning skills.
- Excellent communications skills and a high level of proficiency in written and spoken English.

The Bank offers an excellent tax free compensation package with the usual expatriate benefits. Applications in writing only, should be forwarded to the following address **before 14th June, 1997:**

Senior Manager - Personnel Administration
National Bank of Bahrain
P O Box 106, Manama, Bahrain.
Fax: (0973) 205642

Structured Products

up to £70,000

Are you an entrepreneurial spirit with a strong technical background? Would you enjoy marketing complex derivative products directly to investors? Do you have a passion for structuring? If so, read on.

Our client, a mould breaking Global Bank, is expanding its specialised derivative group and is looking for first class financial engineers to structure and market derivative products to clients in Europe and the Far East.

Consideration will be given to candidates with superb mathematical backgrounds (PhD preferred) and at least two years experience within Capital Markets.

This is your chance to join an enterprising team where long term career development is paramount. Interested?

Project Finance - Talented Modellers

up to £40,000

Are you a superb financial modeller looking for new challenges? Can you survive and progress in a deal driven environment? If so, then we have the roles for you.

Currently we have a number of positions with leading European Investment Banks, who due to continuing success, are looking for ambitious modellers to join their expanding project finance teams.

Successful candidates should have:

- Proven spreadsheet abilities
- Excellent academics (ACA preferred)
- Natural problem solving skills

If you have a passion for modelling and a resilient personality, these opportunities will offer unparalleled personal growth and success.

Please contact Sarah Mellersh or Zoë Ida at Badenoch & Clark, 16-18 New Bridge Street, London EC4V 6AU. Tel: 0171 583 0073, Fax: 0171 353 3908.

BADENOCH & CLARK
recruitment specialists

COUNTERPARTY CREDIT MANAGER
COMPETITIVE PACKAGE – LONDON BASE

The Company is a leading multi-product international bank, with an excellent reputation for success in structured trade finance and credit risk management.

A position has arisen for a Senior Credit Manager, reporting to the Head of Counterparty Credit in Europe. The main tasks include the supervision of a team of account and credit managers encompassing the European market from both the trading Debt and Equity perspective.

The ideal candidate will have 3-5 years proven experience of supervising a team of credit specialists, will have a strong background in generalist financial market trading, and knowledge and experience of credit analysis and counterparty risk limits. It is essential that he/she has worked in a major international banking environment, with a European perspective. *A relevant degree qualification and a good working knowledge* of French and Spanish is highly desirable.

Candidates interested in applying should write in confidence to PO Box No. A5451 The Financial Times, 1 Southwark Bridge, London SE1 9HZ.

Join a fast expanding company in Morocco

A branch of the first French brokering firm and a large Moroccan Bank, we are responsible for the primary and secondary markets, and we work for domestic and international institutional customers. To assist us in our development, we are looking for:

4 Financial Analysts

(Casablanca - local contract)

After 6-8 years in a brokering firm, or in a Shares Trading Room of a bank, you have acquired a real know-how in economical and financial studies, on industrial and/or financial securities.

If you wish to settle in Morocco, you will find an opportunity to evolve with us, in a rapidly developing market. Within a small team of analysts, you will work with several issuers, whose evolution you will follow. Thus, you will compile the different data, which will give assistance to our UCITS' sellers, negociators and managers.

You will take part in the phases prior to study and analyses of the issuers likely to move into the Stock Market (public offering, privatisations). Finally, you will know how to reply to the needs for information and clarification of the different internal contacts.

It is your technical competence (financial, statistical and economical), your ability to communicate and to obtain information, and of course, your good relational sense that you will rely upon.

You should have a good command of English.

Please send us your application (hand-written letter, CV and your current salary level) quoting reference NG/FT to our consultants :

Eurogroup Participations, 17 rue Louis Rouquier, 92300 Levallois-Perret, France.

EUROGROUP PARTICIPATIONS

MEDIA SYSTEM

SOURCES SOUGHT

The U.S. Department of State seeks to identify and hire experts in the area of investment banking, legal, financial, administrative and personnel services (up to a total of 6 positions) to assist a Transition Team prepare for the intended establishment of the Bank for Economic Cooperation and Development in the Middle East and North Africa (MENABANK). The Transition Team will be under the leadership of a U.S. Government official. MENABANK will be a development bank devoted to promotion of private sector development, projects of regional benefit (e.g. cross-border infrastructure) and economic cooperation in the Middle East/North Africa region. The Bank, which will be based in Cairo, Egypt, will be established when a sufficient number of prospective members, including the United States, have completed their domestic ratification procedures. While the primary place of performance for any resulting contract is Cairo, some services may be performed in other locations. Any resultant contract may be for a period as little as one month, but could be for up to one year. It is not expected that services will be on a full-time basis and may be intermittent. However, awardee should expect performance in Cairo or other locations for periods of a month or more at a time. Resultant contract will be on a Time-and-Materials basis.

Interested firms or individuals must submit an application package that, at a minimum, consists of in-depth capability statement, resume, and desired salary range. *Address applications to:*

U.S. Department of State
A/OPR/Office of Acquisition
P.O. Box 9115, Rosslyn Station
Arlington, VA 22219

To ensure proper processing, all correspondence must have the following identification number in the upper right hand corner: S-OPRAQ-97-R-0093. Applications must be received by close of business (5:00 p.m. Eastern Time) on June 17, 1997.

For additional information prior to submission, please contact the following:

TECHNICAL:	COST/CONTRACT:
Larry Butcher	Elaine E. Overgaard
U.S. Department of State	U.S. Department of State
EB/IFD/ODF, Room 3425	A/OPR/Office of Acquisition
21st and "C" Street, NW	P.O. Box 9115, Rosslyn Station
Washington, D.C. 20520	Arlington, VA 22219
202-647-9426	703-875-6046

FINANCE DIRECTOR SALES DIRECTOR

Two exciting new positions based in Warsaw

A rapidly growing Scandinavian real estate company is currently setting up its management structure in Poland. 60,000 sq.m. are under development and 100,000 sq.m. more are being planned. They are looking for confident and assertive individuals with international experience, strong faculty skills, high degree of flexibility, energy and commitment. Benefits accordingly.

For details and more information call Mr. Lie-Nielsen or Mr. Skjeggestad at:

Total Consult Inc. in Oslo.
Tel. +47 22 93 39 39 or +47 22 93 39 38
or fax +47 22 93 39 40.

E-mail: bastian.lie.nielsen@bi.sol.no

TOTAL

THE MULTILATERAL INVESTMENT GUARANTEE AGENCY (MIGA), a member of the World Bank Group, encourages foreign investment in developing countries by providing political risk insurance. MIGA is seeking, for its headquarters in Washington, D.C., candidates for the following positions:

M.I.G.A.

GUARANTEE OFFICER

RESPONSIBILITIES: The Guarantee Officer is assigned to a geographic region and will be responsible for assessing project and country risks; evaluating developmental aspects and technical and financial viability of projects, liaising with MIGA's environmental officer, and preparing and negotiating political risk contracts with applicants. The Guarantee Officer will also be responsible for day-to-day management of contracts for assigned countries and coordination of activities with counterparts in the World Bank Group.

REQUIREMENTS:

- MBA or equivalent business degree or MA in international affairs.
- 3-10 years of experience in international business, preferably in project finance, or political risk investment insurance with either a public or private insurer, or brokerage company. *Knowledge of foreign investment in developing countries an advantage.*
- Excellent interpersonal and negotiating skills.
- Fluency in spoken and written English; knowledge of French and Spanish an advantage.
- Ability to travel three to six weeks a year.

ENVIRONMENTAL SPECIALIST

RESPONSIBILITIES INCLUDE: (I) implementing and providing oversight of Environmental Assessment and Environmental Review Procedure policies; designing, proposing and implementing new internal policies and procedures; (II) maintaining active liaison on the project and policy levels with technical and environmental specialists within the World Bank Group; and (III) participating in the monitoring and evaluation of the developmental and environmental effects of MIGA-assisted projects and providing recommendations to mitigate any adverse effects.

REQUIREMENTS:

- Advanced degree (Ph.D preferred) in natural resource management, biological conservation, water and air pollution control, marine ecology or environmental analysis.
- 10 to 15 years experience in applied environmental management for private sector projects in developed and developing countries.
- Excellent analytical, verbal and written communications skills; strong team leadership and client relations skills.
- Experience in dealing with international environmental interest groups.
- Creativity and strategic thinking, and ability to produce high quality state-of-the-art reports under time constraints and pressure.

MIGA offers an internationally competitive compensation package, including expatriate benefits. WOMEN FROM DEVELOPING COUNTRIES ARE ENCOURAGED TO APPLY. Candidates should send their Curriculum Vitae, typewritten in English, by June 13th, 1997 to:

Multilateral Investment Guarantee Agency • Office of Central Administration, Room U-12-025 • 1818 H Street, N.W. • Washington, D.C. 20433 USA
CVs may be submitted by fax to (202)-522-2640.

UK/European Fund Manager

Hong Kong

Our client is one of the most highly respected fund management groups in Hong Kong with substantial funds invested globally. An exceptional opportunity has arisen for an individual to join them in Hong Kong to manage portfolios invested in pan European (including UK) equities.

As part of a small team, you will contribute to investment strategy, development of client relationships and the active management of portfolios. Within a disciplined investment process there is plenty of scope for individual flair.

Candidates will be graduates with all or part of the IIMR or CFA qualifications and with approximately 3 years' experience in a fund management environment covering UK and/or Continental European equities. Personal characteristics will include sound judgement, strong analytical skills, numeracy and an independence of thought but with the ability to work in a team environment.

The remuneration package includes an attractive base salary, substantial bonus potential and other benefits. To apply, please write enclosing your CV (including details of your current salary package) quoting reference 1290 to Andrew Thompson at FLA Ltd, 211 Piccadilly, London W1V 9LD. Tel: 0171-917 2930. Fax: 0171-895 1353.

FLA
SEARCH, SELECTION AND CONSULTANCY SERVICES

Schroders

Finance and Administration Director Indonesia

Schroders is one of the largest and most international of the UK based investment banking groups. South East Asia plays an important part in our strategy and we currently employ around 60 people in the Investment Banking and Investment Management businesses in Indonesia. The Company is a member of the Jakarta Stock Exchange.

An opportunity has arisen for a Finance and Administration Director in order to strengthen the team in Jakarta. The role, reporting jointly to the Managing Director in Indonesia and the Finance and Administration Director in S. E. Asia (based in Singapore), encompasses responsibility for the financial and administrative affairs, including regulatory and control aspects, and for monitoring settlements, IT and HR. The successful candidate will be a qualified accountant with several years' post-qualification experience, a part of which must have been in the financial services industry. Strong management skills will be essential as will the ability to handle a broad range of responsibilities. Fluency in English is mandatory, Asian experience preferable and Bahasa Indonesian desirable.

A competitive package is offered and there are opportunities for career progression within the Schroder Group world-wide.

Applications, including full résumé, should be sent to Sue Cox, Group Personnel Director, Schroders, 120 Cheapside, London EC2V 6DS.

European Bank for Reconstruction and Development

The European Bank has a unique challenge: to assist the countries of central and eastern Europe and the former USSR in their transition to market economies. The European Bank supports projects through lending, taking equity positions and providing technical assistance.

The Banking Department focuses on the development of the private sector, restructuring and privatisation of the state assets, creation and strengthening of financial institutions, development and improvement of the environment, including action to improve nuclear safety.

Along with a competitive compensation and relocation package, we offer action and achievement in a truly historical enterprise.

... sheet financing, ... large investment in the sector; ☐ ... institutions in the power sector ... government and utilities' officials.

☐ Degree in finance/business ... Strong background in ... in the power and energy sector of which ... commercial or development ... particularly relevant, along with excellent ... literacy is essential; ☐ Candidates must ... to make and to justify decisions based on ... operating information; ☐ Fluency in ... eastern European languages is desirable; ... offices in our countries of operation is ...

... Banking Department (London Based) we ...

...rincipal Ban...

...erty/Tourism (ref. FT1099)

... to the Team Leader the Principal ... contribution to the development and ... This will be accomplished primarily ... structuring, negotiation and ... the Bank's countries of operation. The individual ... of the project cycle including client ... documentation, development of ... to EBRD's ...

... communication ... in the country of education; ... or development bank ... activity; ☐ Strong

ETO

The European Telecommunications Office is seeking a

Deputy Director - Head of Numbering

ETO is a permanent office of the European Committee on Telecommunications Regulatory Affairs (ECTRA).

Responsibilities:

- responsible for numbering activities undertaken by the ETO on behalf of ECTRA;
- responsible for the preparation of ECTRA positions in European and international organisations for numbering, naming and addressing and for participation in the work of these organisations;
- responsible for representing the ETO in international numbering fora and for ensuring the quality of ETO output documents on numbering.

Duties:

- analysis, co-ordination and provision of information on numbering schemes of ECTRA countries;
- to undertake studies for the European Commission and other bodies on European numbering issues;
- to assist the Director in administrative tasks, provide an input into planning the budget and the work programme and in the monitoring duties of the Director and the Administrator.

Profile of the applicant:

- must be a national of one of the 43 CEPT countries;
- must have at least 5 years working experience in either an operator or national regulatory body and university level education, or equivalent;
- must have experience of public policy work in Numbering and Telecommunications, proven analytical skills and the ability to draft concise reports and proposals;
- must possess the ability to chair meetings and speak at conferences;
- must be fluent in English and have a knowledge of either German or French.

The post is based in Copenhagen. The commencing salary will be DKK 671,300 per annum (tax free). The applicant must be able to commence work in the beginning of 1998.

Applications (in English) before 20 July 1997, to the Director of ETO at the following address: European Telecommunications Office, Holsteinsgade 63, 2, DK-2100 Copenhagen Ø, Denmark.

For further information, contact ETO by telephone +45 35 43 80 05 or the ETO Web Site - http://www.eto.dk.

Fund Manager UK Equities

City **£ Excellent Package**

Our client is a fund management organisation with over £80 billion under management and an extensive presence in North America, Europe, Asia and Australia. It has a diverse international and domestic client base which includes pension funds, insurance companies, governments, central banks, unit trusts, charities, investment trusts and high net worth individuals.

As a result of continuing growth, the international division is seeking to recruit an experienced investment professional. The successful candidate will be responsible for managing UK equities and actively contributing to strategy and asset allocation meetings.

Candidates will have a minimum of four years experience of UK equity investment management within a fund management institution. This is an exceptional opportunity for a high calibre graduate with the relevant professional qualifications. Individuals must possess excellent verbal and written communication skills. The ability to both think independently and to work in a team environment is essential.

This position is an excellent opportunity for an enthusiastic, stock driven equity manager with a proven career track record.

For an initial confidential discussion please contact Sarah Hesse-Hunter on 0171 269 2314 or alternatively write to her, enclosing a full curriculum vitae, at Michael Page City, Page House, 39-41 Parker Street, London WC2B 5LN. Fax 0171 405 9649. Please quote reference 327198.

Michael Page City
International Recruitment Consultants
London Paris Frankfurt Madrid Hong Kong Singapore Sydney

Sanwa International plc

Financial Engineering/Strategic Arbitrage

DERIVATIVES STRUCTURER

Sanwa International plc, the London-based investment banking subsidiary of The Sanwa Bank, Ltd., seeks a junior structurer/financial engineer to join its successful Financial Engineering/Strategic Arbitrage Department. The role will involve participating in the pricing and execution of structured note transactions for European and Japanese investors, assisting in the writing of pricing models, and also – with increasing experience – some contribution to arbitrage activities.

The successful candidate will be expected to have:

- Around one year's relevant experience with an investment bank or securities house;
- Good honours degree in mathematics or other highly numerate discipline from a top university;
- Firm understanding of derivatives pricing theory, particularly of interest rate derivative instruments;
- Experience using and writing pricing spreadsheets; the ability to programme in C++ would be a distinct advantage.

The position offers excellent career potential in an innovative and demanding environment; salary and benefits package will be highly competitive and based upon experience and potential. Applicants for this challenging position should submit their CVs to: **The Personnel Department, City Place House, PO Box 245, 55 Basinghall Street, London EC2V 5DJ.**

WEB EDITOR

LONDON

IFR Publishing, a division of Thomson Financial Services, produces a range of printed and electronic products including International Financing Review, the world's leading publication on wholesale financial markets. We also produce handbooks, newsletters and magazines, and host financial seminars and conferences, from a network of bureaux in London, New York, Tokyo, Hong Kong, Singapore and Frankfurt.

We're looking for a Web Editor to join a dynamic and rapidly growing electronic development team. It's a varied role which will involve proof-reading and editing copy, developing web-based products and formulating a data warehouse, researching and writing features and exploring advertising opportunities on the Web. Not least, you'll create a structured editorial style and policy for IFR's electronic products.

In addition to offering editorial experience and a degree, you'll need to have spent at least three years' reporting on international capital markets, preferably for a major publication or news service, and must be able to work independently as well as in a team. A strong interest in electronic media and a good knowledge of the Internet would also be a great advantage.

In return, we're offering an excellent salary, a full benefits package and superb career prospects.

To apply, please send a full CV and covering letter, quoting job code 97075/FT, to Jon Baynes, Thomson Financial Services, Human Resources, 2nd Floor, Aldgate House, 33 Aldgate High Street, London EC3N 1DL.
E-mail:baynesj@tfseur.co.uk

Closing date: June 11th 1997.

IFR PUBLISHING

Ann Williams & Co
Search & Selection
Telephone: 44(0)171 556 7066 Facsimile: 44(0)171 556 7494

We urgently require, for Global Locations

MARKET RISK MANAGERS

- with 2-5 years experience in Banking

(Development/Trader Support) Must be educated to the PHD Level in one of the Physical Sciences.

If you would like to leverage your career - call or write - Ann Williams Suite 105, 75 Cannon Street, London, EC4N 5BN you will be treated with the utmost confidence.

FT FINANCIAL TIMES

LEADER WRITER

The Financial Times seeks a leader writer to join a small full-time team. Applicants should have a good degree in economics (or equivalent), an international outlook, the ability to write clearly and well on a wide range of subjects and to generate ideas. Experience as a journalist is an advantage, but not essential.

Closing date is June 9th and applications should be addressed to:

Robin Pauley
Managing Editor
The Financial Times
Number One Southwark Bridge
London SE1 9HL

The Financial Times is an Equal Opportunities employer

HEAD OF TAXATION

HIGHLY COMPETITIVE PACKAGE — **U.K. HEADQUARTERS, DERBY**

Williams is an international manufacturing group operating in three business areas – fire protection, security and home improvement. Following the recent acquisition of Chubb Security Plc, the group is now a world leader in fire protection and security.

THE POSITION

- Provide a central focus on all tax issues.
- Provide project management skills to implement agreed initiatives.
- Liaise with and challenge proposals from the group's outside advisors.
- Provide accurate forecasting of tax charges and payments.
- Monitor planning and compliance activities of outside advisors and operational management.
- Identify the tax implications arising from any changes in the business.
- Keep abreast of changes in tax law and practice, developing appropriate initiatives in conjunction with advisors.

QUALIFICATIONS

- Aged 35-45.
- *Qualified Chartered Accountant* with detailed knowledge of tax in an international group where ACT issues are at the centre of planning strategies.
- Project management capabilities, commercially sound with a practical hands-on approach.
- Ability to think through issues and present effectively to non-tax experts.
- Capable of building strong professional relationship with the group's outside advisors and of working as part of a small, highly focused and effective team.
- Persuasive and creative with a forward thinking approach.

Candidates should send details of career to date and current remuneration, quoting ref 5B2 to *Grandison Selection, 46 Green Street, London W1Y 3FJ.*

WILLIAMS

GRANDISON SELECTION
THE SELECTION DIVISION OF IAN JONES & PARTNERS LIMITED

Pan-European Finance Opportunities

Electronics Distribution — Surrey

Key new roles in c.£300 million turnover plc with 24 international subsidiaries. Strong European presence with global ambitions. Excellent share of fast-growing market, strong links to premier suppliers as well as established blue-chip customer base.

Group Financial Controller

c. £65,000 + Car + Benefits

THE POSITION — **REF LG70513**

- Responsible for all internal and external group financial reporting, business planning and analysis. Report direct to Group Finance Director.
- Champion improvement in financial management and analysis across subsidiaries.
- Develop and maximise application of integrated financial reporting systems across the group. Liaise extensively with subsidiary companies.

QUALIFICATIONS

- Graduate calibre qualified accountant with upwards of ten years' experience including international reporting and *business planning. Strong commercial background gained in* international group.
- Commercially astute and technically excellent. Previous *exposure to manufacturing, distribution or electronics* sectors advantageous. Multicurrency accounting and systems development experience beneficial.
- *Excellent interpersonal and presentation skills with drive and* energy. Mature and able to build respect of group board and subsidiary management alike.

Treasury & Tax Manager

c. £55,000 + Car + Benefits

THE POSITION — **REF LG70514**

- Build and manage a proactive treasury and tax function. Implement group treasury policy. Report to Group Finance Director.
- Maximise utilisation of group's cash resources, minimising foreign exchange exposure. Manage and develop banking relationships ensuring effective investment strategy. Ensure available funding to support international expansion.
- Full responsibility for corporate tax planning and compliance in conjunction with external advisors. Implement best practice tax strategy amongst existing operations and advise on tax implications of past and future company direction.

QUALIFICATIONS

- Graduate calibre qualified accountant with experience of managing group treasury and tax planning functions in an international environment. (Perhaps have ACT or ATII qualifications).
- Technically excellent with proven record of academic achievement. Record of success in an international treasury function. Proficient working on a pan-European basis.
- Confident communicator with the ability to influence at board level and with outside institutions.

Please send full cv, stating salary, quoting relevant reference, to NBS, 54 Jermyn Street, London SW1Y 6LX
Fax 0171 491 0447 Tel 0171 493 6392

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logica Finance Managers

London and Surrey — £ Excellent + Car + Bonus

Logica plc is a leading company operating in the worldwide computer services industry, with operations throughout Europe, North America and the Asia Pacific region. With 5000 staff in over 18 countries, Logica supports organisations worldwide, supplying consultancy software and systems integration services to the highest professional standards. The company is firmly committed to a future strategy of both organic and acquisitive growth.

Following internal promotion, the group is looking to strengthen its UK operation by the appointment of two key individuals who have the confidence and ability to drive further changes within a dynamic and fast paced environment. Reporting to the UK Finance Director and working closely with senior management and Directors up to Board level, these are highly commercial/project based roles. Key responsibilities will include:

- Effective and innovative analysis of current business issues and formulation of strategic plans.
- Developing a strong understanding of operational issues and supporting the financial needs of three key business units.
- Financial input to major bids and projects including management of foreign exchange exposure, investment appraisal and cash management.
- Production and analysis of monthly results and statistics and the generation of accurate monthly forecasts and annual budgets.
- Undertaking ad-hoc projects including due diligence exercises.

Prospective candidates will be highly commercial graduate qualified accountants, who have demonstrated considerable potential in their career to date, with a minimum of four years post qualified experience. You will have excellent interpersonal and analytical skills, with experience of operating at a senior level. Experience of the IT services market would be useful, as would competence in other languages. Of equal importance is your hands-on approach, coupled with the ability to think strategically.

In return, Logica is offering excellent career progression within a continually expanding organisation, where career development is only limited by individual performance and ability.

Interested candidates should write to Jaz Dhanda at Michael Page Finance, Page House, 39-41 Parker Street, London WC2B 5LN enclosing a comprehensive curriculum vitae with salary package, quoting reference 351442.

Michael Page Finance
Specialists in Financial Recruitment
London Bristol Birmingham Edinburgh Glasgow Leatherhead Leeds
Maidenhead Manchester Milton Keynes Nottingham Reading St Albans & Worldwide

GROUP ACCOUNTANT - SPECIAL PROJECTS

Central London — To £40,000 + Car + Bonus

Logica is a multi-national consultancy and I.T. solutions provider to leading organisations worldwide. With an annual turnover in excess of £300 million and employing 5,000 staff globally, Logica provides a competitive advantage to businesses across a diverse range of market sectors. Following an impressive increase in market share through organic growth and strategic acquisition, an excellent opportunity has arisen for a fast track finance professional to join their group headquarters.

THE COMPANY

- Global leader providing cutting-edge I.T. and software solutions to its sophisticated multi-national client base
- Over 10,000 projects in 50 countries including Europe, North America and the Asia Pacific
- Highly profitable: over three-fold increase in profits to the last five years
- Highly acquisitive; aggressive targeting of new business opportunities
- Competitive and customer focused

THE PERSON

- Graduate ACA/CIMA with 2+ years pqe; aged 26-30
- Commercially focused with a strong financial background
- Proven track record of achievement to date from within a Blue Chip Plc
- Strong interpersonal skills; management presence
- International orientation; willingness to travel

THE ROLE

- Reporting directly to the Group Financial Controller, you will command a pivotal role between global operations and group finance
- Special projects will include M&A/Corporate Finance transactions and business performance evaluations
- Management reporting, group accounting and financial analysis
- Commercial review of international operations, liaising with senior operational management
- Prospects for career progression are guaranteed

Please contact our advising consultants Jonathan Holdsworth or James Heath at Executive Match on 0171 872 5544, or write enclosing your CV quoting ref. F1265 to them at:

logica

EXECUTIVE MATCH
1 Northumberland Avenue,
Trafalgar Square,
London WC2N 5BW
(Fax: 0171 753 2745)
(All direct applications will be forwarded to Executive Match)

INVESTMENT BANKING — Attractive Package

Rabobank is the world's only private international bank with a current "AAA" rating from all of the major rating agencies. Due to the rapid expansion within the London Investment Banking Division, covering Treasury, Derivative and Capital Markets products, two new opportunities have arisen for self-motivated individuals to assume key roles within Finance & Control and Internal Audit.

Rabobank

Product Accountant (ref CJ14)

An exciting opportunity has arisen to join and play a key role within the Product Control team. Main responsibilities will include P&L and balance sheet reporting, MIS analysis, trader liaison, and the development of process systems and controls.

Candidates will be recently qualified graduate accountants with a high level of numeracy and the ability to work unsupervised to tight deadlines. Experience of financial institutions with previous exposure to derivatives is desirable and all applicants should demonstrate initiative, confidence and a desire to progress.

Operational Auditor (ref CJ15)

The successful candidate will be an integral part of a three person team. Main responsibilities will include the development and implementation of internal audits for our rapidly growing London Investment Banking activities.

Ideally, candidates will be qualified or part-qualified graduate accountants, with at least two years experience of auditing a broad product Treasury. Exposure to and knowledge of financial derivatives is a pre-requisite.

Applicants will be innovative and methodical with strong communication and systems skills.

Full CVs complete with current salary details in strictest confidence to **Carol Jardine**, Jardine Kelso, c/o Rabobank International London Branch, 108 Cannon Street, London EC4N 6RN

IT Controller

£42,000 + car + bonus + top benefits

Thorn is a major international group with an annual turnover in excess of £1.5 billion. In Europe, Thorn operates in 13 countries and the core businesses are brand leaders in their respective markets.

This is an opportunity with Thorn Europe, owing to the creation of a new management role with pan European exposure, to establish high standards of procedures for professionally managing all systems changes impacting on finance across Europe and ensuring compliance with those procedures. Responsibilities include:

- Regular reporting at Director and senior management level across the UK and Europe.
- Defining policy to system change control for finance, across Europe.
- Managing the day-to-day working relationship with the IT function, on behalf of finance.
- Guiding the European Finance Team on technology and service related decisions. Advising on prioritisation of systems resource/budget.

You are likely to be a qualified ACA accountant with in excess of five years PQE, preferably with a background in the Profession and subsequent commercial experience. You should also posses a knowledge of project management implementation, as well as understanding process and control implications. Strong interpersonal skills and the ability to build and develop working relationships in conjunction with the ability to influence and manage potentially conflicting situations are essential skills. You should also be a results focused individual who can grasp new ideas and concepts quickly.

This is a high profile opportunity, reporting to the Director of Finance, within a prestigious and forward-thinking multinational. Career development opportunities within the Group are first class and the financial package includes bonus, PRP, and other benefits associated with a major international corporation.

Please apply enclosing a full CV and details on your current salary package, quoting ref RB2611, to Rachel [illegible] at Robert Half International, Princess Beatrice House, Victoria Street, Windsor, Berks, SL4 1EH.
Telephone: 01753 857 777 Facsimile: 01753 841 676

Any CV submitted direct to Thorn will be forwarded to Robert Half as retained consultants.

Theale Nr. Reading

ROBERT HALF. — THORN

European Finance Manager

North West Kent — to £50,000 package including car

Our client is a leading world player in international freight forwarding. With 6000 staff worldwide and an international network of offices and depots operating a full range of services by air, sea and overland, this company is one of the few logistics organisations who are multi-modal and global in reach.

As the business continues to prosper, a need has arisen for a highly commercial Finance Manager to join the European Head Office team. Reporting to the European Finance Director, this is a key role with far reaching responsibility to maximise operational efficiency and profitability. The incumbent will have a strong influence on strategic decision making.

The role will involve:

- Review and analysis of performance of European subsidiaries.
- Cash flow/working capital management.
- Ad-hoc systems implementation projects.
- Preparation and review of budgets.
- Control over adherence to global policy and procedures.

The nature of the role will mean considerable European travel will be involved on an ad-hoc basis.

Candidates will be qualified accountants with considerable commercial exposure in an international environment. Language skills are highly desirable, especially German and/or Italian. A high level of communication and inter-personal competency is essential to effective performances of this role.

If you feel you have the qualities to fulfil this challenging position, please send a comprehensive CV, quoting reference KLJR 340874 to Jonathan Ross at Michael Page Finance, Cygnet House, 45-47 High Street, Leatherhead, Surrey KT22 8AG.

Michael Page Finance
Specialists in Financial Recruitment
London Bristol Birmingham Edinburgh Glasgow Leatherhead Leeds
Maidenhead Manchester Milton Keynes Nottingham Reading St Albans & Worldwide

Chief Financial Officer

Central - and Eastern Europe

Prague Based

Our client is a fast growing service organisation with a reputation for quality and professionalism. It is active in several countries in Central - and Eastern Europe and has significant expansion plans. Our client is member of a global corporation. The organisation in Central - and Eastern Europe consist of a young, dynamic, international and entrepreneurial team.

As a CFO you will be a key member of the regional management team. Responsibilities will cover finance, accounting and administration which includes budgeting, tax, treasury management and liaison with external advisors and officials. You will also be responsible for internal procedures and policies, human-resources co-ordination. You will report directly to the regional managing director.

The position is based in Prague. It will require travelling to other countries in Central -and Eastern Europe especially to set up financial systems and procedures. It will be your goal to make each country work as independently as possible.

This demanding role requires a business minded CFO of the highest calibre. You will have experience within a dynamic, international environment. You might be working as a controller, professional advisor, management accountant etc. and be interested in a broader and more international challenge. Your experience should also include significant exposure to accounting systems development and implementation. You will be a hands - on person who at the same time thinks strategically. You use finance as a management tool and proactively search for profitability improving actions. Previous working experience within emerging markets is desirable, but not essential. Fluency in English is required.

You will be a persuasive communicator, energetic, an excellent manager and motivator of staff. You will be robust in character and not afraid of an environment which frequently presents unexpected obstacles.

Applications will be treated in strictest confidence.

Send resume quoting reference 348 to:
Human / Accord Group
Financial Services Practice
Villa Safránka
Na Safránce 22
101 00 Praha 10
Czech Republic
Tel. +420 2 74 23 41
Fax: +420 2 74 23 46
e-mail: accord@human-accord.com

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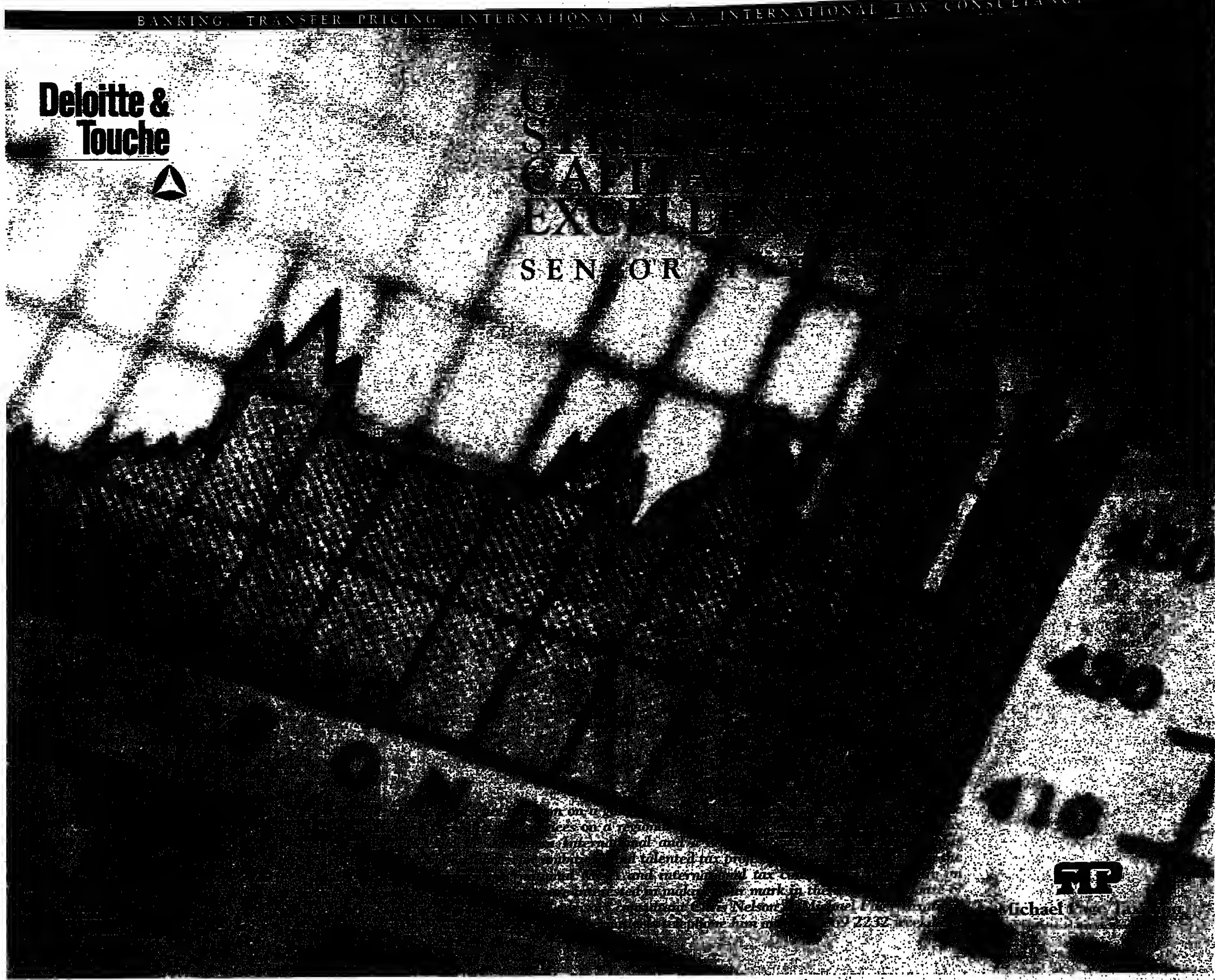
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Deloitte & Touche
SENIOR

International Opportunities
Finance Directors Of The Future

This $1billion business, part of e major US corporation, has operations throughout Europe, the Middle East and Africa. It engineers and manufactures a wide range of products predominantly for industrial and construction sectors and continues to grow organically and by e programme of aggressive acquisitions. Undergoing major change to bring greater integration throughout the area the focus is on introducing team based working.

The company needs to build e team of up to 6 people, preferably multilingual and with the potential to be future FDs. Whilst the team will be based in the UK it will handle various projects throughout the area and the US and Far East including pre and post acquisition reviews, internal control evaluatione, and assessment of IT systeme and management. Internal audit is the route into the corporation end supplies finance professionals to the operating companies.

Audit Manager — To £50,000

Reporting to the US you will heve considerable autonomy for planning projects end ensuring their implementation. Your role will require close liaison with the VP Finance and other senior operational management. Qualified ACA/ACCA you should heve 5-6 years post qualification experience either in industry or straight from the profession. If the latter you must have coneiderable exposure lo clients in the engineering/manufacturing seclore. Evidence of euccessful project managemenl and team leadership is required. **(Ref: FT489J)**

Audit Seniors — To £37,000

Reporting lo the Audit Menager you will epend the mejority of your time on sile leading teame of 2/3 euditors ensuring timely and efficienl completion of projects. This will require people and project managemenl skills coupled with the stature and personality to interface with operational management. You will have 3-4 years experience post qualification In broad ranging review work within manufacturing/engineering. **(Ref: FT490J)**

Auditors — c£32,000

You could be newly qualified and looking for your firsl role in industry. Alternetively your experience mey be all in manufacturing with a blue-chip business. Either way you will be keen to travel and take e steep learning curve lo en operational finance role. You will have already demonstrated drive, ambition and resilience. **(Ref: FT491J)**

Please send a CV, quoting the appropriate referance number, lo Peter Shotton, al Howgate Sable & Partners, Arkwright House, Parsonage Gardens, Manchester M3 2LF. Tel: 0161-839 2000, Fax: 0161-839 0064.

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International Tax Consultancy

Streamlining: A massive benefit to international companies. And a major consulting role for an international tax specialist.

PW in London — c.£50,000

Price Waterhouse has an outstanding reputation for corporate tax consulting, both in the UK and internationally, working closely with clients to understand their needs and deliver Innovative, value-added solutions. We currently intend to expand our European Streamlining Group which advises top-tier multinational companies on achieving their business and organisational goals by streamlining their operations in Europe in the most tax efficient ways.

This role presents an exceptional opportunity for an outstanding tax specialist to develop skills al the cutting edge, working In e multi-disciplinary team, across high profile projects, with outstanding professionals. Streamlining is much In demand and already firmly established. Your influence will extend from feasibility to implementation, presenting business system solutions to senior level management and ecting as an agent of business change for the world's leading organisations.

You will need an exceptional blend of talents. Strong influencing, communication and interpersonal skills are essential, together with a minimum three years' pqe experience gained in a UK or US international legal/accounting environment. The ability to harmonise with other disciplines, the team spirit to work with different departments and the record of project management that suggests a fast-track career are all important. Although a foreign language is not a prerequisite, you must be prepared to travel extensively.

In return, you can expect an excellent salary and a range ol benefits, Including a flexible remuneration scheme which allows you to Influence your total benefits package.

If you have the expertise, vision and personality to grow with such a role, please send a detailed CV to: Bonne Paton, Price Waterhouse, 32 London Bridge Street, London SE1 9SY.

Price Waterhouse

Price Weterhouse is eethorleed by the Institute ol Chertered Acccentaols in England end Weles to cerry oo Investment beeinese.

Financial Controller

Financial Services
To £45,000 Plus Car And Major Benefits — North West

A division of one of the most consistently profitable FTSE 100 companies In the UK, this leading provider of finance to the consumer and corporate markets is enjoying a period of exciting growth, both organically and by acquisition. It saw profits rise by a fifth last year on a growing loan book and it Is currently restructuring to position itself for further expansion, resulting In this new position.

Reporting to the Finance Director, you will be responsible for managing and developing tha accounting and administrative functions, leading a substantial leam of prolessional staff. You will take a lead In systems development to support the business end will generally be expected to bring a fresh commercial outlook to improving the service and Increasing efficiency.

A qualified accountant, preferably CIMA or ACA, with good people management experience, you will have ideally between 5 and 10 years post qualification experience in a financial services, insurance or leasing environment. The successful candidate will have a detailed awareness of computer systems, excellent communication skills and the ability to implement change through a clear and decisive management style.

Please send a CV to Joelle Warren at Howgate Sable & Partners, Arkwright House, Parsonaga Gardens, Manchester M3 2LF. Tel: 0161-839 2000, Fax: 0161-839 0064, quoting ref: FT493W.

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Poplar HARCA

Poplar HARCA is a new housing and regeneration agency working in the London Borough of Tower Hamlets. Following a positive vote by tenants, the HARCA will take over just under 2,000 homes on three estates in early 1998. Subject to further tenant ballots, the HARCA will over the next three years grow to 6,500 homes, delivering a multi-million pound refurbishment and regeneration programme. The HARCA now wishes to recruit its first senior staff.

Finance Director

Salary £46,000 - £52,000 p.a.

The Finance Director will establish and lead the team responsible for financial control and financial management. The Finance Director will take personal responsibility for managing the HARCA's loan portfolio and relations with lenders.

Candidates will need to be fully qualified (CA, ACCA, CIMA or CIPFA), and experienced and effective financial managers. Experience of developing and implementing complex financial strategies is essential. The emphasis of the Senior Management Team will be on performance. Candidates will need to show a track record in achieving corporate as well as departmental objectives.

Candidates should apply in their own style by 16 June 1997 at 12 noon to HACAS, the HARCA's advisers, whose address is given below. An information pack is available from HACAS.

HACAS Ltd, United House, North Road, London N7 9DP. Telephone 0171 609 9491. Fax 0171 700 7599.

HACAS
Incorporating Poynsford Dallison Associates

Chief Accountant
With significant IT involvement
Up to US$80,000 (Tax Free) + Benefits
Saudi Arabia

Our clieot, part of a very prestigious local Group, is a highly respected supplier of Ericssoo's telecommunication equipment aod services m a wide range of private and corporate customers throughout the Kingdom.

Reportiog m the Deputy General Maoager, you will have a high degree of autooomy and assume full responsibility for all accounting, financial control and IT functions. As a key member of the senior management team, this 'froot line' role will iovolve a wide range of operational and commercial issues, including spearheading the development of the Company's IT strategy.

A young, dynamic Chartered Accountant or equivalent and ideally degree qualified, you will have at least 4 years' post-qualificaoon experience gained io a large, service-orientated company. Proven team leadership and motivaoonal skills must be combined with the credibility to present at Board level, and the coofidence to be effective within a mulö-racial environmeot. Commercially aware, you will be used to working in a rapidly changing environment, to tight deadlines and under pressure. Vitally important is a high degree of computer literacy, supported by practical experience of systems development and the implementation of internal controls.

In return, there is an attractive, negotiable tax-free salary aod bonus, together with a generous package which includes quality housing, medical care, paid holidays and renewable contract, together with excellent prospects for career developmeot within ao expaoding business.

Please write, io confidence, with full career and salary details to Ghassan E Yazigi, Executive Director, Middle East Pracoce, Heidrick & Struggles, 100 Piccadilly, Loodon W1V 9FN. Please quote ref: 3341-13.

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Finance Manager

c. £45,000 + benefits — W. Midlands

Software at the sharp end...

...is the business of this fast-growing, forward-looking leader in fioancial sector software. Based in the West Midlands, the company is well established with a turnover of £8 million and an enviable track record.

The young management team is now looking to consolidate the next critical phase of development through the active involvement of an equally ambitious, corporate-minded, senior finance professional.

At the right hand of the Managing Director, your brief will be to support the corporate decision-making process with watertight financial management information. At the same time, you will be leading a fully-resourced Accounting function in delivering effective control systems to schedule.

We are therefore looking for a comprehensive skills-set from a mould-breaking individual. Probably a graduate, you are also likely to be a qualified Accountant - but defioitive qualifications will take second place to personality. What your track record must show is a deeply credible advisory style, proven motivational line management experieoce in the activities of a substantial accounts team, genuine proficiency in the use and development of computerised systems and a well acquired taste for commercial success. Above all, given the pace of growth in this organisation, you must display that nebulous quality called potential: you'll know it if you have it; we'll know it when we see it, and the company plans to take it all the way.

If you feel your skills give you the edge to carve out a career in financial technology, cut to the chase now by writing with a full CV to Jenny Mayes or Gavin Burgess, quoting reference G/0109/FT at the address below:

Executive Search & Selection,
Price Waterhouse Management Consulting Ltd,
Cornwall Court, 19 Cornwall Street,
Birmingham B3 2DT
Fax: 0121 200 2464
E-mail: Jenny_Mayes@europe.notes.pw.co.uk
E-mail: Gavin_Burgess@europe.notes.pw.co.uk

正風利富會計師行
Glass Radcliffe Chan & Wee
CERTIFIED PUBLIC ACCOUNTANTS

GRCW is a growing firm of CPAs with approximately 150 professional and support staff and affiliated offices regionally and internationally.

We invite applicants for the position of:

SENIOR MANAGER - AUDIT

We anticipate the successful candidate will be a Chartered or Certified Accountant with at least 10 years audit experience, preferably with larger firms. Good communication skills and computer literacy required. Ability to speak Chinese will be an advantage but is not essential.

Attractive salary with fringe benefits will be offered to the right candidate. (Circa GBP50,000)

Please write with CV and full personal details to:

The Personnel Manager
8/F Yu Yuet Lai Building
43 Wyndham Street, Central Hong Kong
Tel: 852 2525 0171 Fax: 852 2810 1417

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John Kay

Time to let go

Supervision should be replaced by regulation of areas where market forces are not enough to protect the public interest

The danger in Whitehall reform, as in the shift of responsibility for banking regulation from the Bank of England to an expanded Securities and Investments Board, is that the only thing that changes is the name on the brass plate by the door. In the offices behind the same people go on doing the same jobs. The change in institutions needs to be sccompanied by a substantive change in what the institutions do.

What I have described as banking regulation the Bank of England describes as banking supervision. The difference is more than semantic. Supervision is gentler, but more wide-ranging, than regulation. When I was in the school playground, I was supervised by my teachers. But now that I am grown up and responsible for my own actions, no one supervises me. My behaviour is regulated by the law, the police, and conventions abont how decent people behave.

And we do not usually supervisa other industries. There is no Board of Retailing Supervision. No authority asks supermarkets to submit their business plans. No ona invites them to regular meetings to discuss their affairs, or passes on helpful hints abont the good practice of their rivals. There are no raised eyebrows for them to watch.

Nor do we have a Board of Pharmaceutical Industry Supervision, or a Board of Restaurant Supervision, although we do have a Committee on the Safety of Medicines and we look to the Health and Safety Executive to monitor catering hygiene. But these are very different bodies. Their purpose is not to promote good practice in the industry and to encourage good management in businesses. They do not want to know about anybody's business plan.

Their object is to eddress specific and legitimate public concerns and, if necessary, to take tough action to deal with them. There used to be supervision of some other industries. The Civil Aviation Authority once took on that role for British aviation, reviewing the financial soundnese of operations and worrying whether fares were high enough to guarantee a profit. But such regulation has gone the way of Gosplan, the old Soviet Union's state planning agency. Today the CAA aensibly concentrates on issues such as the safety of aircraft and leaves tariffs and scheduling to airlines.

The Bank's eupervision failed to remedy the dismal management and poor internal controls at Barings, the merchant bank which collapsed in 1995. But the right answer to this is not to say that supervision should be more rigorous. It is to ask why it is appropriate for a public anthority to supervise Barings at all. The only victims of tha collapse were those directly involved with Barings. The British monetary system and the external reputation of the City of London survived intact. Some other merchant banks were affected. Their customers wondered whether there ware similar management failings there, and understood that they could not rely on the British taxpayer to bail them out. It is all to tha good that they should have asked the first question and learnt the answer to the second.

The whole concept of the supervision of an industry undermines the responsibility of management and customers for their actions. The Bank of England should not be held to account for the collapse of Barings. It is time to end supervision and replace it, as has happened in other industries, by regulation directed at those areas – the financial analogues of aircraft safety and drug testing – where market forces are not enough to protect the public interest.

Small savers are anxious to be able to make deposits in banks withont risk of loss. It is not practical to suggest that they investigate the solvency of banks themselves. They have to rely on public reputation. That makes it necessary to ensure that these reputations are well deserved. Such a role demands the high-profile interventions of City regulators such as Imro rather than the highly confidential activities of tha Bank of England.

The further protection of small retail investors is best achieved by deposit insurance. But this cannot ba made available unconditionally, and we need to monitor its terms and availability. There is no need for such a scheme to be universal, so long as it covers a wide range of institutions, and the public knows who is – and is not – covered by it. The Deposit Protection Scheme meets some of these criteria but the upper limit of £20,000, is inadequate.

There are some institutions whose role in Britain's financial and monetary system is such that their collapse would endanger the UK payments and settlement systems. These companies have grown so large that they have assumed a central social and economic role and their solvency is, in practice, underwritten by the British government. That creates an inescapable need for government oversight of their activities.

But the best means of doing that is to insist on firewalls between the retail deposit activities of these institutions – which should enjoy government guarantees, accepting that the risk of failure is negligible – and their other operations where no risk of failure lies and where government guarantee is inappropriate.

The taxpayer, of necessity, etands behind the retail banking operations of Barclays Bank but should have no liability whatever for the proprietary trading activities of BZW, the investment bank of the Barclays group. But today the assets of one support the other. That means the Bank of England has a responsibility for BZW which it ought not to have, probably cannot realistically discharge, and which exposes it and the public at large to needless risk.

Since this implicit cross-subsidy from retail deposit-taking to other financial activities has been behind the increasing dominance of world capital markets by leading retail banks, we must expect these banks to oppose such a change. But the relationships of regulators are necessarily less comfortable than those of supervisors.

Barings: Bank supervision failed to prevent tha collapse

Engineering leaders

Iain Parker takes about three telephone calls a month from people interested in buying his company – but he always turns them down. "We are determined to be our own masters. We'd rather invest long-term for the growth of the businees than be beholden to an impersonal holding company," says Parker, chairman of privately owned Otter Controls, which makes thermostats for the domestic appliance and automotive industries.

Parker says that if the 51-year-old company, based in Buxton, Derbyshire, had been publicly quoted, it might not have maintained its record of channelling 10 per cent of sales into new plant and equipment, in good years and bad.

As a result of such policies production volumes have more than tripled in the past 10 years without any changes in staff numbers, and the company is looking for a further doubling of volumes in the next five years while keeping employment stable at about 800.

About 85 per cent of Otter's $48m annual sales are exported.

Parker, who owns and controls the company with other directors and family members, scorns the idea that his business needs prodding from outside shareholders to stop it becoming complacent.

"Every day we have customers here from around the world. The personal contact creates its own dynamic and keeps us on our toes," he says.

Parker's comments illuminate the debate about whether businesses in "niche" areas of the engineering industry will have a better ehance of long-term growth under private or public ownership.

Of 20 companies of this type studied by the Financial Times, half in Germany and the rest in the UK, virtually all the German ones are privately owned. The overwhelming view from these companies is that publicly traded equity can hamper growth.

Hartmot Mehdorn, chairman of Heidelberger Druckmaschinen, the world's biggest eupplier of printing machinery, says that accenting shareholder vaine is nothing more than a fashion trend that diverts managers from their customers and technical developments.

Mayer, a company based near Stuttgart, which with sales of $400m a year is the world's biggest maker of circular knitting machines, believes it might have followed many of its UK textile machinery rivals into liquidation in the early 1970s recession, had it not been for the stability and scope for long-term investment conferred by private ownership.

Private ownership is prized at Oxley, a UK-based leader in anti-interference circuitry in the electronics industry. The lack of outside shareholders means that the company can spend 10 per cent to 15 per cent of its $20m annual sales on research and development, much of it linked to manufacturing disciplines.

It has become one of Europe's leaders in the esoteric business of "micro-machining", in which components such as optical switches are made to sub-micron accuracy using high-resolution sculpting with X-rays.

"There is something compelling about this company that makes me want to carry on," says Ann Oxley, the 61-year-old chairman and 90 per cent owner. She lives in a flat above tha plant, tacked on to a converted mansion in Cumbria. On her death the company will automatically come under the control of Geoff Edwards, Oxley's long-serving managing director.

But private ownership is not the only way to success for the niche engineering manufacturer. The experience of a small number of publicly quoted British companies indicates that there is no fundamental block to such businesses becoming leaders in their field. Spirax-Sarco, the world's biggest maker of the steam control systems seen in a vast range of industries, from brewing to laundries, has built its businass by channelling resources into informing customers of its capabilities.

It brings 6,000 customers a year to training sessions on steam control in its premises around the world. The company distributes product literature in 30 languages and has put 1m students through correspondence courses since the 1950s.

"Schools don't teach people about steam, so we do it," says Tim Fortune, the chief executive.

The company hopes that this strategy will encourage customers to turn first to its products when they seek to improve thair steam systems.

"Wa are selling our customere wealth," says Fortune, whose company has increased profits for every one of the 29 years since ha joined and has three quarters of its 3,900 employees based outside Britain.

Fortune says his company's stockmarket quotation has not been incompatible with long-term success. "The stockmarket pressures have had a benign effect through helping us to focus and to improve," he says.

The experience of German companies in these niche markets would snggest that private ownership has created the hreadth and freedom they believe they need for strategic planning.

But British managements are showing that with a strong business focus it is possible to work within the potential strictures of public ownership.

Leaders: Geoff Edwards, managing director, and Ann Oxley, chairman, prize Oxley's independence

Some keep things to themselves

Peter Marsh examines the case for private ownership in niche engineering enterprises

Literary Festival / Annalena McAfee

Morrison makes Hay

As the curtain-raiser to the UK's premier festival of literature, it was an unorthodox choice. But the 230 poets, playwrights and novelists appearing at Hay-on-Wye Literary Festival happily deferred to a practitioner of the lyric arts from the other side of the tracks.

Van Morrison, accustomed to performing in rock stadia accommodating tens of thousands, launched the festival with a sell-out concert in a 950-seat tent in the middle of a muddy Welsh field.

But why, in a celebration of prose and poetry which featured Harold Pinter and Martin Amis, Ariel Dorfman and Seamus Deane, give the opening honours to a harmonica-playing former window cleaner from Belfast?

And, since Morrison could command top billing at the world's biggest rock and jazz venues, what was he doing here?

The answer can be found, obliquely, in Morrison's 1983 album *Inarticulate Speech of the Heart*. Here, in "Rave on John Donne", Morrison rhapsodised about the metaphysical poet ("Rave on John Donne, rava on thy holy fool/Down through the weeks of ages"), Walt Whitman ("nose down in wet grass/Rave on, fill the senses") and WB Yeats ("Rave on Mr Yeats, down through theosophy... through the writing of a vision... Rave on words on printed page").

This is a singer-song writer whose influences extend beyond Muddy Waters and Sam Cooke. Morrison has arranged settings of poems by PJ Kavanagh and Padraic Colum (on the album *Celtic Heartbeat*) collaborated with Paul Durcan (on *Enlightenment*) and has recently performed on a WB Yeats tribute album. He is an enthusiast.

He also has ambitions of his own in this field: a proposed book of his collected lyrics includes some of his own unpublished verse. The poets Tom Paulin and Allen Ginsberg are among the subjects of Morrison's laudatory free verse, as is Frank Richards, creator of Billy Bunter – another great influence, apparently. Rave on, fat Owl of the Remove.

At Hay, however, these literary influences were not to the fore, though Kenneth Grahame, author of *Wind in the Willows*, got a sneaky look-in during the haunting "Piper at the Gates of Dawn".

Backed by an impeccable band, including Georgie Fame on keyboards and Pee Wee Ellis and Leo Green on sax, Morrison show-cased his latest album *The Healing Game* with an unprecedented exuberance. It was his musical roots, mired in blues, r&b, soul and the Irish ballad tradition, which were explored here in songs that covered the familiar Morrison themes of quest and redemption.

He has been criticised in the past for displaying a monochrome emotional range. This is the man, after all, whose penultimate album featured such exultant songs as "Perfect Fit" and "Days Lika This" alongside tracks called "Melancholia" and "Underlying Depression".

Exultation certainly featured in his Hay performance of the new album's title track, with its characteristic references to ancient roads and golden days, and there was an evocative melancholy in "Sometimes We Cry".

But, as any self-respecting metaphysical poet would tell you: exultation and melancholy – what else is there?

Usually the most taciturn of performers, Morrison was in an expansive, even generous mood, soliciting requests from the audience. His voice, in the first of two sets of the evening, was in agile form, swooping and soaring between persuasive whispers, anguished growls and the occasional exhilarated yelp.

Throughout, he offered a renewed passion which even lent a freshness to his old standard "Moondance". With his horn section in full-swing he could have been a Blues Brother: Belushi without the shades.

All this and a flasb of humour too as he left the stage, jauntily miming to the dying chords of his gospel-style "Burning Ground".

The poets, novelists and playwrights – and readers – of the Hay Literary Festival rose in a standing ovation.

Here was Van Morrison, singer-songwriter and would-ba poet, a man at ease, playing to his peers.

■ *The Hay Festival (01497 821299) continues until Sunday, June 1.*

Dance / William Deresiewicz

A power beyond the human form

As with all artists who prove their genius young, the question about Mark Morris has been one of development. Would he move beyond the forms of beauty that seemed to come so naturally, and if so, in what direction?

By now, a first answer has taken shape, and as his company's recent New York season at the Brooklyn Academy of Music confirms, it bears a name ontil lately quite obscure – that of the composer Lou Harrison. Harrison, instrumental in reviving interest in the work of Charles Ives in the 1940s, disappeared from view shortly thereafter. Now, after decades of contented and prolific isolation, be has emerged rather suddenly as one of tha most influential and acclaimed composers in the US.

While mainstream artists chased the diminishing returns of serialism and minimalism, Harrison, from his Pacific home, turned his ear to the East, and to nature. His music is eclectic, urgent, sensual – full of gongs and passion. Morris himself has figured in Harrison's rediscovery. The two have obvious affinities. Morris, also from the West, also cultivates an aversion to the New York establishment.

His work, too, combines a childlike sense of play with sophisticated taste and wit. He, too, draws from sources high and low, Western and "global".

And like the older man, Morris both embraces tradition and adheres to the highest standards of craft. Still, all this was true of Mark Morris long before he ran into Lou Harrison. What ha has foond in him is something entirely different.

Strict Songs (1987), his first Harrison work, celebrates the power and splendor of nature. The piece is not one of Morris's best, but its subject was significant for being so uncharacteristic. For such a brilliant ironist of feeling and situation, the dance suggested a desire to reach beyond the social world, towards forces that Morris could point to without yet knowing how to embody.

When he returned to Harrison five years later, he embodied them with a vengeance. *Polka*, a deceptively titled work, presents what appears to be a savage tribe consecrating itself for an act of slaughter.

In a wide circle, in thunderous unison, the darkly clad figures perform percussive, threatening sequences to a driving rhythm that tightens and relents like a hand gripping your throat. Lines surge to and fro with the surging phrases of the score. There are no individuals bere, only a single group goaded and fused by the music's ferocity. *Polka* has since been incorporated as the finale of *Grand Duo*. The complete work fleshes out the picture of primitive collectivity, but neither primitivism nor collectivity is its ultimate subject.

While dance cannot help but use the human form, *Grand Duo* uses the human to look beyond the human, towards the gigantic realitiea that make and dwarf the body and its passions.

In Edmund Burke's terms, Morris has begun to aim at the sublima – at the terrifying and powerful and obscure. But power and terror have buman sources as well.

Not a conspicuously "political" artist, two years ago Morris created *World Power* to selections from Harrison's *Homage to Pacifica* and *Bubaran Robert*. The work, a treatment of American imperialism dotted with images of arrogance and slaughter, harnesses the steamroller force of its score. Like the ocean waves that Harrison has listened to for so long, music and dance possess a relentless and suffocating energy.

Harrison is Morris's main path into the sublime. Before *Grand Duo* came *Behemoth* (performed in silence), just afterwards *Mosaic and United* (Henry Cowell). The obscurity Burke spoke of marks each of these works. Morris's genius turns naturally towards clarity and legibility – two, indeed, of his most winning virtues.

Since *Behemoth*, however, *he has become willing to* risk enigma, even abstraction. In attempting to render what is least subject to control, he has relaxed control over both his audience's responses and the workings of his own intuition.

Rhymes with Silver extends these trajectories. Offered in New York as the centrepiece of an all-Harrison evening, the work is one of Morris's first to a commissioned score. Harrison furnished a highly diverse series of 12 short movements, and Morris responded with a dance of monumental variety and scope.

The work takes us through pride, serenity, bumor, pathos, ecstasy. We see precise music visualisation, haunting imagery, top-like spinning à la Laura Dean, even ballroom dancing.

As much as anything, we see East European folkdance. That it is an embodiment of ancient force and feeling Morris and Harrison have demonstrated before – hence, *Polka*. It is also where Morris began his life onstage, as a teenage member of a Balkan folk ensemble. In striding forward, be is also characteristically circling back, finding the new in the old, making for the past a bome in the future.

Theatre

Escape to Beach Blanket Babylon

Antony Thorncroft is pleasantly disappointed by this vibrant if tame musical

Beach Blankat Babylon Arts Theatre's *Beach Blanket Babylon*, "the longest running musical revue in American history", is currently in London for the shortest possible time – for the two-week run of the BOC Covent Garden Festival. This San Francisco *jeu d'esprit* is a pleasant disappointment, pleasant because the music is attractively eclectic and brightly performed; a disappointment *because the prospect of outrageous camp* is cruelly frustrated.

San Francisco prides itself on being the gay capital of the US, and an entertainment built around impossible costumes, notably hairpieces that would make Madame de Pompadour weak with envy, promises much.

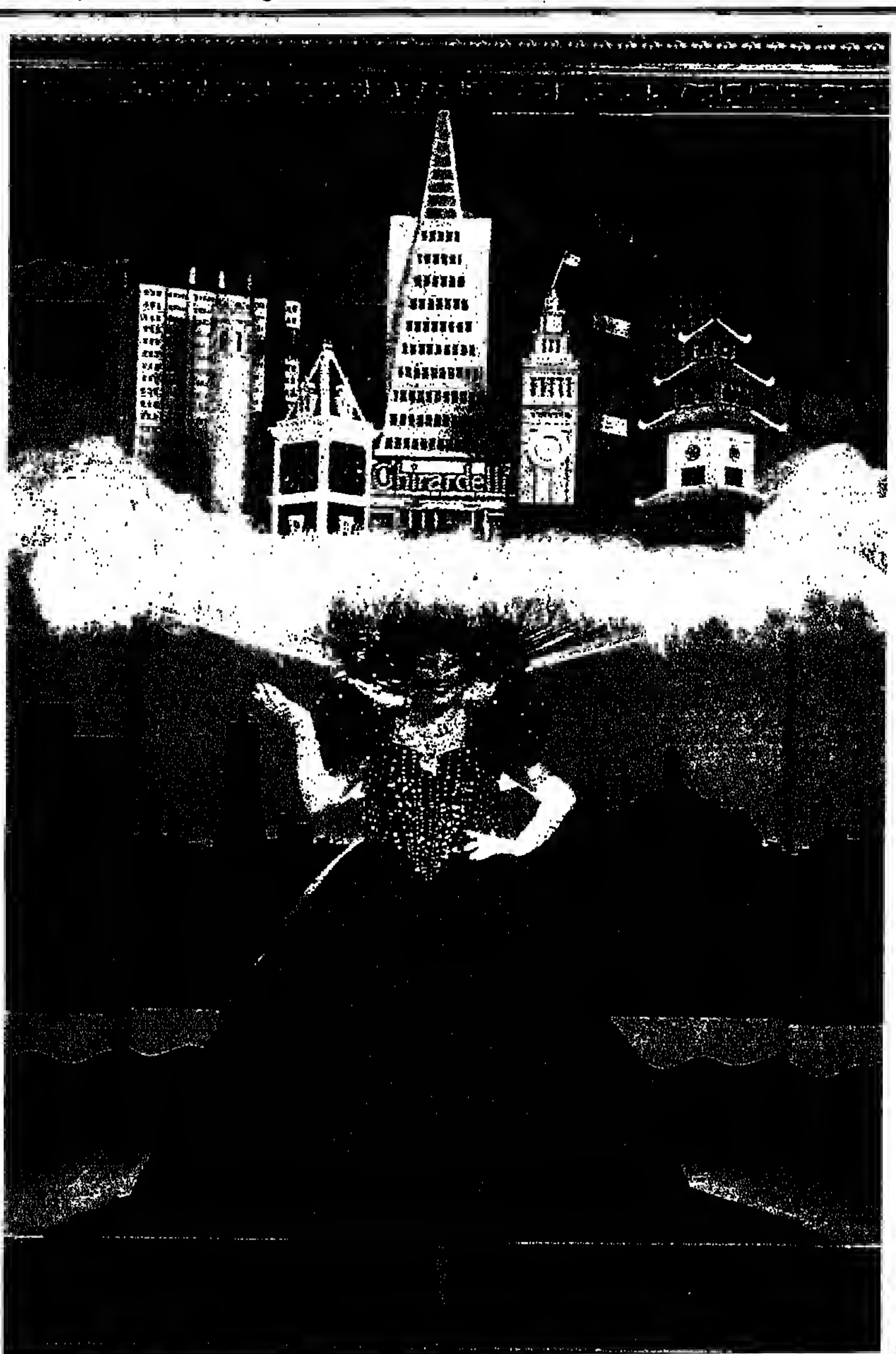
If you enjoy seeing artistes balancing everything from a vast shopping hamper to an (almost) full-sized model of 'Frisco on their beads, this is your Eighth Heaven. But if you expect the gay community to present a musical beaving with bitchy innuendo and salacious gossip, wise up: *Beach Blanket Babylon* is about as malicious as Bambi.

The show has been constantly freshened up since it was created 23 years ago by Steve Silver and Armistead Maupin, and new material has been added for London. For some reason Delia Smith has been selected as *the* British totem, but there is a cameo featuring the Queen and her three wayward sons.

In the main, though, this is a celebration of American music, featuring every imaginable gay icon from Barbra Streisand, viciously captured by a man, to an indubitably female Madonna, all spiced up with the kind of costumes gays would wear to the Hairdresser's Ball. The songs dash rapidly from 1930s standards to 1970s soul, via the Beach Boys, and the eleven-strong mixed cast sing their *socks off and dance their* dreams out.

There is a naive linking plot – Snow White seeking her Prince around the world – which enables director Kenny Mazlow to introdnce cheap jokes, familiar sight gags, and heaving headgear from Paris, Rome, London, and wherever. If the overall effect is like watching a camp cabaret after the censor has rinsed out the blue, there is still enough pleasure to be gathered from the exuberant cast, the vibrant music, and the carefree staging to make an enjoyably escapist 90 minutes.

And the final tableau, at which Snow White, who has given up her hunt for a foreign Princa to marry the "King", carries on her head the burden of both an illuminated wedding cake, *and* a mechanised doll's house of Bnckingham Palace, does impress. London is not short of musicals, but if you like them hairy, happy and wholesome then *Beach Blanket Babylon* is for yon.



High-rise hats: Val Diamond with 'Frisco balanced atop

Christopher Bowen

INTERNATIONAL ARTS GUIDE

■ AMSTERDAM

EXHIBITION
Rijksmuseum Tel: 31-20-6732121
● The Nude – Prints, drawings and photographs: nude figures have long appeared in scenes from the Bible and mythology. In this exhibition artists spanning five centuries give their individual interpretations of these figures: Adam and Eve, gods such as Mars and Venus, and many other heroes and saints; to Aug 3

■ BALTIMORE

EXHIBITION
Baltimore Museum of Art Tel: 1-410-396-6300
● Celebrating Baltimore's Birthday: exhibition featuring a selection of paintings and decorative art representing the work of the city's artists; to Dec 31

■ BERLIN

CONCERT
Konzerthaus Berlin Tel: 49-30-203090
● Richard Waage and Marion Hofmann: the flautist and harpist perform works by Saint-Saëns, Fauré, Debussy and Ibert; Jun 1
Philharmonie Berlin Tel: 49-30 254 89 254
● Maurizio Pollini: the pianist performs works by Beethoven; Jun 1

■ CAMBRIDGE

EXHIBITION
Fitzwilliam Museum Tel: 44-1223-332900
● Shakespeare and the Eighteenth Century: exhibition examining interpretations of Shakespeare by visual artists in the 18th century. On display are drawings and prints by artists including Romney, Blake and Barry alongside portraits of actors, authors and composers associated with the playwright's work; to Jun 29

■ CHICAGO

THEATRE
Steppenwolf Studio Theatre Tel: 1-312- 3351888
● A Streetcar Named Desire: by Williams. Directed by Terry Kinney. The cast includes Rick Snyder, Kathryn Erbe and Lalla Robins; to Jun 15

■ LIVERPOOL

CONCERT
Philharmonic Hall Tel: 420 20 2110 5111
● Royal Liverpool Philharmonic Orchestra: *with conductor Libor Pesek and violinist Josef Suk in* works by Strauss, Suk and Dvorak; 44-151 709 2895; May 31

■ LONDON

CONCERT
Wigmore Hall Tel: 44-171-9352141
● Artis Quartet of Vienna: performs works by Mendelssohn, Zemlinsky and Brahms; May 31
EXHIBITION
British Museum Tel: 44-171-6361555
● Ancient Faces: Mummy Portraits from Roman Egypt: exhibition displaying nearly 200 mummy portraits on wooden panels, linen shrouds and coffin lids made between the 1st and 3rd centuries AD; to Jul 20
Concourse Gallery Tel: 44-171-6388891
● Janet Nathan – Constructions 1979-1997: *retrospective* exhibition covering the British artist'a work over an 18 year period, charting her preoccupation with river and seascapes, produced using found materials and crafted forms; to Jun 8
Victoria & Albert Museum Tel: 44-171-9388500
● *Experiencing Modernity*: The Arts of Reform and Persuasion 1885-1945: exhibition exploring the role designs have played in shaping society's opinions and values, rather than reflecting them; to Jul 1

■ LOS ANGELES

EXHIBITION
Los Angeles County Museum of Art Tel: 1-213-857-6000
● Converging Cultures: Art and Identity in Spanish America: featuring more than 250 objects, this exhibition focuses on tha rich and fascinating period of history between tha Spanish arrival in the Americas and the independence movements of the 19th century. Rather than concentrating on the commonly held notion of Spanish versus Indians, tha exhibition highlights the ways in which these two distinct populations influenced one another and how they gained creatively from this interaction; to Jun 8
MOCA at California Plaza Tel: 1-213-626-6222
● Mark Morrisroe: Polaroids: display of works by the influential photographer, featuring self portraits and portraits of friends and lovers, taken between 1977 and 1989 with a 195 Polaroid camera in mostly bleak domestic settings; from Jun 1 to Sep 14

■ MUNICH

EXHIBITION
Haus der Kunst Tel: 49-89-211270
● Frantisek Kupka und Otto Gutfreund: display of more than 200 works by the abstract artists from the 1920s and 30s, both inspired by musical rythmns; to Jul 20

■ NEW YORK

EXHIBITION
Guggenheim Museum SoHo Tel: 1-212-423-3840
● Art/Fashion: exhibition examining the exchanges *between visual art and fashion* design through a selection of sketches, watercolours, sculptural works, garments, photographs and installations. Works by artists including Christo, Warhol and Shea will be on display alongsida garments designed by Cocteau, Dali and Balla; to Jun 8
The Metropolitan Museum of Art Tel: 1-212-879-5500
● The Gods of War: Sacred Imagery and the *Decoration* of Arms and Armour: display selected from the Museum's own collection of arms and armour, exploring the use of sacred imagery in tha decoration of weaponary in different cultures around the world, including the Middle East, India, Tibet and China; to Oct 1
MUSICAL
Martin Beck Theater Tel: 1-212-239-6200
● Whistle Down the Wind: by Lloyd Webber/Steinman. Directed by Harold Prince. Tha cast includes Irene Molloy, Davis Gaines, Candy Buckley, Lacey Hornkohl, Abbi Hutcherson and Cameron Bowen (not on Mondays) (prov. ending date); to Dec 31

■ PARIS

EXHIBITION
Centre Georges Pompidou Tel: 33-1-44 78 12 33
● Chemin faisant, Frère Crayon et Sainte Gomme: Designs da Martial Raysse, 1958-1996: display of some 100 drawings by the French artist who came to prominence in the early 1960s as part of the New Realism, quickly gaining a reputation for a more modern outlook than his nostalgic contemporaries; to Jun 9
FESTIVAL
La Sorbonne Tel: 33-1 42 62 71 71
● Festival de Musique en Sorbonne: features performances by Ensemble Spirale, the Choeur and Orchestre de Paris-Sorbonna, Christophe Simonet and Trio Cappa. *The opening concert* is by the pianist Marie-Josèphe Jude, performing works by Brahms and Schubert; from Jun 3 to Jun 24

■ ROME

EXHIBITION
Galleria Nazionale d'Arte Moderna Tel: 39-6-322 981
● Ferruccio Ferrazzi: Dipinti E Disegni Svizzeri, 1916-1917: *display featuring 50 drawings*, produced by the Italian artist during his stay in Switzerland during tha First World War. Ferrazzi's work shows the influences of Futurism and the Roman School; to Jun 15

■ VIENNA

CONCERT
Konzerthaus Tel: 43-1-7121211
● Oleg Maisenberg: performance by the pianist. The programme includes work by Shostakovich and Schnittke; Jun 1, 2

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Out on its own, in the cold

Ukraine, now free of Russia, must not let its economy collapse, writes **Chrystia Freeland**

For five centuries, Russia has measured its tsars by their success in extending the Muscovite empire, and one of their most prized targets has always been Ukraine. Even Lenin warned his revolutionary, nominally anti-imperialist, comrades *that "to lose Ukraine is to* lose our head".

But if Mr Boris Yeltsin makes a long-promised – and many times postponed – trip to Kiev today, it will be formally to admit that Ukraine has been lost. The Kremlin chief's planned visit is to conclude a friendship treaty which would be Russia's first official acknowledgement of Ukraine's independence and of tbe integrity of its borders.

Whether it is signed, or yet again postponed, the deal is being closely watched throughout the former eastern bloc as a test of Russia's post-imperial transformstion. Both the former Soviet republics and the countries of eastern Europe see a solidly sovereign Ukraine as a guarantor of stability in the *region and as a crucial* counterweight to Russia.

Nato and the west, led by the US, agree. Ukraine, whose existence is seen as insurance against the re-emergence of an expansionist Russia, is the third largest recipient of US foreign aid. It is also one of the most enthusiastic participants in Nato's partnership for peace programme, designed to foster co-operation between the alliance and the former Warsaw Pact.

But for Russia, signing a friendship treaty with Ukraine has proved immensely difficult. A measure of this sensitivity is the fact that, over the past two years, Mr Yeltsin has six times cancelled planned trips to Kiev to sign the deal. As Mr Volodymyr Horbulin, tbe head of Ukraine's national security council, explains: "They cannot come to terms with the fact that Ukraine is now an independent country and they cannot accept us an an equal partner."

This delicate relationship with Russia made many observers sceptical of *Ukraine's ability* to break away when its leaders first began to move towards independence in the early 1990s. Many analysts predicted it would swiftly be riven by bloody internal divisions between the Russian-speaking east and the fiercely patriotic west. Others prophesied s bloodbath in Crimea, where pro-Russian separatists briefly held control.

Nearly six years on, none of these disasters has come to pass. Ukraine, which has been independeot on only *three brief occasions* in the past millennium, has been relatively successful at managing its domestic and foreign politics. Apart from the sdmirable Baltic republics, it is the only country in the former Soviet Union which has managed the post-com*munist transition without an* outburst of bloody civil conflict or a resort to blatantly authoritarian rule. Ukraine has also found a tentative balance between moving closer to the west without unduly antagonising Russia.

"This place has not ruled itself for three centuries, and this century itself has been godawful," one western ambassador in Kiev says. "In only six years the political progress has been heartening. There's a new constitution which passes all the international tests. Tbe country has put itself on the map of the world and managed its relations with its neighbours quite well."

But this rosy picture may be darkening. Over the past few months, as an ambitious reform programme has stalled and a spate of corruption scandals has surfaced, leaders in Ukraine and abroad have begun to warn that a brewing economic catastrophe threatens to hijack the country's political achievements. This in turn could create a zone of instability in the strategic belt between Russia and the west.

In their bleaker moments, businessmen and politicians warn that economic disintegration threatens. This could take the form of an Albania-style popular revolt, or a reversion to authoritarianism and a clamouring for reunion with Russia, as happened in Belarus.

Delicate relationship: Kuchma (left) and Yeltsin

"People in the west who are interested in peace and security and democracy are concerned," says Mr William Senkiw, bead of the Kiev office of accountants Arthur Andersen, and a five-year veteran of Ukraine's rocky business environment. "How long before people start looking for the Belarus or Albanian solution?" he asks.

Such grim predictions are born of fears that Ukraine's fragile market reforms may have frozen, or even begun to be reversed. Without swift, radical change, the ecooomy could shrink by as much as 8 per cent this year, exacerbating the painful drop of 10 per cent in 1996, says Mr Anders Aslund, a senior associate at the Carnegie Endowment for Democracy who is an *adviser to the reform* wing in the cabinet.

Ukraine's economic malaise is unusual, because the country has been relatively successful at achieving the first, and often most difficult, task of the post-communist economic transformation: macro-economic stabilisation.

Over the past two years it has reined in inflation – the government predicts an annual rate of between 14 and 17 per cent this year – and introduced a new national currency which has *appreciated slightly against* the dollar over the past few months. By regional standards, Kiev's public finances are relatively robust. It is expected to run a budget deficit of just 4 per cent of gross domestic product this year and, in the first four months of 1997, collected 92 per cent of expected tax revenue.

But this fiscal and monetary virtue threatens to be sabotaged hy the state's failure to liberalise the economy and a consequent epidemic of corruption. Local businessmen tell horror stories of dozens of permits, and thus dozens of bribes, being required to complete the simplest transaction. Bigger scandals surround lucrative sectors such as the gas, electricity and grain markets, which have existed in a twilight zone between state and private control that has offered government cronies opportunities for wild *enrichment.*

"Effectively it is the government that now blocks economic development," says Mr Aslund, who, like most observers, blames most of the rot on Mr Pavlo Lazarenko, the prime minister.

If the economic free-fall continues, Ukraine could be transformed from the geopolitical anchor it has become over the past five years into a source of regional instability. With more than 50m people, and horders with Poland, Hungary, Romania, *Slovakia, Russia and* Belarus, this would have serious implications for much of eastern Europe.

Economic deterioration could also undermine the fragile entente between Ukraine and Russia, tempting conservative factions in the Kremlin to try to reunite with Ukraine, as they attempted to do with Belarus earlier this year. The danger *in Kiev is sufficiently* acuts that two weeks ago a massive Ukrainian government delegation – led by Mr Leonid Kuchma, the president, but pointedly excluding Mr Lazarenko – was summoned to Washington for a dressing-down.

Ukrainian reformers see America's "tough love" as the possible catalyst for a turnround in government policy. They are hoping that, *under pressure from the US,* Mr Kuchma will sack his prime minister and hand the economic initiative to pro-market ministers – including the ministers of justice, finance, the economy and of a special reform portfolio – already in the cabinet.

"We learnt that the US is tired of belping and not getting results," says Mr Ihor Mitiukov, Ukraine's minister of finance. "It is very good that this criticism is coming now, when we can still do something to correct our course." Ukraine's tragic history has produced a darkly stoic people. Even the national anthem begins with the rather bleak declaration that "Ukraine has not yet died". But if Ukraine does not act on US criticism and allows its economy to collapse, the fragile post-cold war political order in eastern Europe could be thrown into turmoil.

Europa

EU's give and take

Subsidies and membership fees should be cut to limit the harmful effects of transfers

Every year the Swedes pay about SKr20bn (or $2.6bn) in membarship fees to the European Union and receive approximately half of this money back in the form of grants. This raises the question why there should be a policy of giving with one hand and taking with the other. Why not waive the *subsidies and halve the* membership fee?

The extensive transfer systems in Sweden have been the subject of review and criticism in recent years. The EU budget and the transfers through it have not, however, been subject to *review – even though* the percentage of transfers within the EU's budget is greater than in Sweden.

The redistribution between countries and interest groups clearly has harmful effects. Transfers have to be financed by taxes that have negative effects on growth while redistribution makes recipients dependent on support. Moreover, the transfers pose a threat, *inter alia,* to the expansion of the Union in central and eastern Europe and might damage the positive effects of a single currency by preserving old structures.

Recently, a report from the Stockholm-based Trade and Industry Information Group presented *an alternative* view of public sector spending in Sweden. It broke down the expenditure into the relative importance of pnblic sector solutions. Expenditure on defence and the legal system are viewed as genuine expenses on behalf of the *state,* while other government spending could be avoided through private solutions.

The review shows that approximately 5 per cent of Sweden's public sector spending comprises transfers to interest groups. Expenditure on regional, housing *and trade* and industry policies is included in this category. By the same definition, no less than 75 per cent of the EU's budget comprises transfers to interest groups.

Almost half of the EU's budget goes on agricultural subsidies – a stubborn leftover from the earliest years of the EU. Just over one-third is invested in structural measures within the member states through structural funds. The majority of this money is reserved for regional ventures.

One reason why the EU charges fees, only to be paid back to the member states, is a desire to even out the standard of living within the Union. Capital is transferred from more wealthy countries to less wealthy ones. But even net payers, such as Sweden, receive EU grants. Approximately half of the nearly SKr20bu which Sweden pays to the EU comes back in the form of agricultural, structural and research grants.

This monetary circulation is unsustainable in the long run, given the extra taxes required to finance increased undertakings by Brussels. Furthermore, the agricultural subsidies hinder the eastern expansion of the EU. Several eastern bloc countries have economies which are both weak and dependent on agriculture. *Under* current rules, the subsidies would exceed all reasonable limits, as well as impede the process of rejuvenation. A reform of agricultural subsidies is a prerequisite for expansion of the EU.

In one respect, the EU's *agricultural policy could be* said to have succeeded. Almost all agricultural policy decision-making authority lies at EU level. But if the EU is to function effectively, there must be a clear division of decision-making powers between national and supranational levels. This division is, in every significant respect, absent with regard to structural policy.

Lahour market and regional policy measures, for example, along with support for research and development (R&D), are handled both at national and Union level, which leads to work being duplicated.

The massive regional policy investments by the EU also create problems with regard to the introduction of a single currency. Countries with high unemployment have previously been able to devalue their way out of crises at the expense of a reduction in real pay. With a single currency, this instrument would no longer be at their disposal. If unemployment is to be reduced, what is needed instead is a *better climate for companies* and increased labour market mobility. In practice, the EU's regional policy investments counteract both of these requirements.

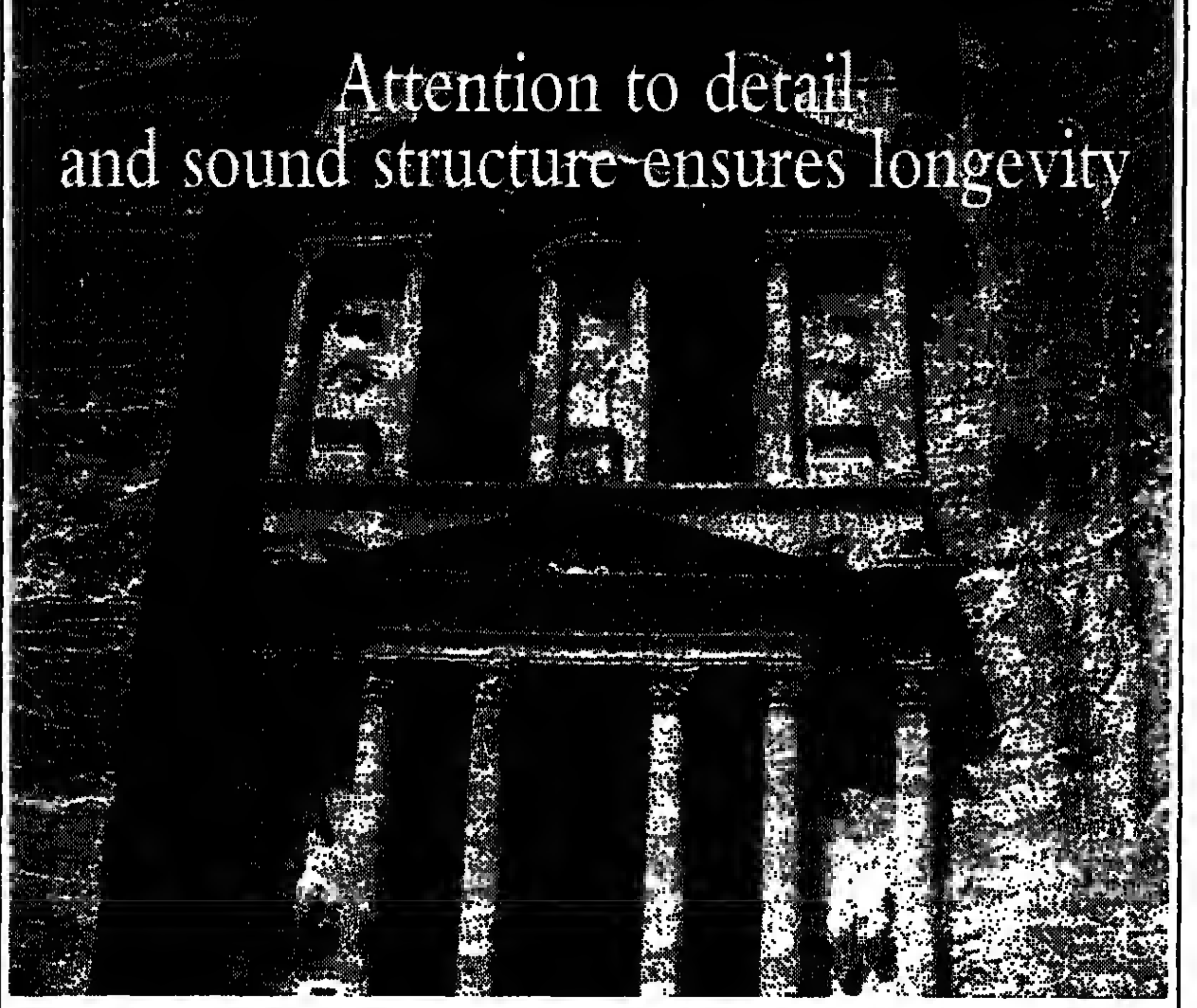
If the situation does not change, the countries where growth and employment are on the increase risk having to pay ever higher fees to the EU to bolster weaker economies. The percentage of transfers within the EU budget would then become even greater and the anticipated efficiency profits in connection with a single currency would be reduced.

Not all taxes via the EU budget need to be abolished. Supranational measures can be effective in certain areas such as R&D support. In most countries it is state subsidised: transnational co-operation might be considerably *enhanced if* projects could be financed by the EU.

Our conclusion is that Sweden should request a reduction in its fee to the EU by a quarter in return for waiving its entitlement to a corresponding sum. Reduc*tions of fees and subsidies* should be an option for other nations. It is vital that politicians take up this issue.

Göran Tunhammar and Carl-Johan Westholm

Tunhammar is director-general of the Swedish Employers' Confederation; Westholm is director-general of the Swedish Federation of Private Enterprises



LETTERS TO THE EDITOR

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Successive French governments out of touch with electorate

From Mr J.H. Sheffner.

Sir, As usual, Dominique Moisi's article is on the mark ("Consensus of discretion", May 23). Depression reigns in France and one despairs. Successive governments are increasingly out of touch with the electorate, and with the outside world, as Sonday's first round of the elections further confirmed.

"Globalisation" has been a growing international fact of life for some 20 years, yet French governments feign to ignore it. They either fail to recognise the extent of the urgent changes and reforms required in government and administration for France to remain a competitive and political force in the world, or lack the courage and conviction – and above all the leadership – necessary to put them into effect. All want change without change and Colbertism still prevails.

The upshot is political stalemate, widespread disaffection and a France in decline.

The consequences have an impact on Europe, since with Germany advancing towards reform with feet of clay, the two "locomotives" of European Union have become the two "lame ducks". And who wants to be led hy lame ducks?

The right has signally failed to deliver, retreating at virtually every sign of opposition to modest reforms. On the left an unreconstructed Socialist party, in alliance principally with the *Communists, could well* be voted into power next Sunday with similar policies to those which helped create the current mess.

One despairs, for nowhere on the political horizon is there any sign of a politician of stature who not only understands the problems but sees the solutions and has the guts, the vision and staying power to implement them. And while France is engaged in reverse gear, the international pace of change is accelerating.

In the UK things work in spite of the government. In France, things don't work because of the government. Simplistic, but essentially true.

They work in the UK because of deregulation and the reforms to government. the labour market and to the trade unions introduced since 1979 – a date which in itself emphasises how far France has fallen behind. *Just think what could* happen to a country which invented "Le système D" if whatever government is returned next week were to do likewise and really "get off the people's back".

A foregone hope?

J.H. Sheffner,
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France

Favourable to trade with poor nations

From Professor Jagdish Bhagwati.

Sir, Messrs Slaughter and Swagel (Letters, May 28) are right to dispute Professor Adrian Wood's rebuke (Letters, May 9) of Martin Wolf for being too sympathetic to those who argue that trade with the poor countries is not significantly hurting our workers. Wolf referred ("Global opportunities", May 6) to Slaughter and Swagel's statement in an International Monetary Fund paper that no more than "10-20 per cent" of the decline in real wages was due to trade.

But in arguing that there is a consensus that trade has only a moderate adverse effect, they concede too much. Most trade scholars think the effect is *negligible,* while I have recently concluded (in a forthcoming paper *Play it Again, Sam: Yet Another Look at Trade and Wages*) that it is even *favourable.* These studies are analytically more compelling than the studies from labour economists which tend to produce the larger (if moderate) adverse inferences that Slaughter and Swagel have averaged out, to produce their consensus range. Such averages appear to give a "balanced" view but have no scientific validity.

Jagdish Bhagwati,
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Not present at ambassador's appearance

From Ms Kathy Bloomgarden.

Sir, In yoor Observer column of May 16 your referred ("Swiss image gets a polish") to my supposed role in the recent appearance of ambassador Thomas Borer of Switzerland before the US Senate banking committee.

Although the writer urged that I spend "more time behind the cameras than in front of them", I was not even present when ambassador Borer made his remarks to the committee.

Nor, as the writer suggests, was either Ruder Finn, or I personally, working for Volvo or Pehr Gyllenhammar when the Renault merger was under consideration, or even in the years just preceding that period. Whoever provided that misleading information was clearly not living up to the high standards of factual reporting which are basic to the Financial Times' tradition.

Kathy Bloomgarden,
president,
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301 East Fifty Seventh St,
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NY 10022, US

Public must pay for museums

From Mr David Sawers.

Sir, Mark Fisher, new UK minister for the arts, should realise that a government's decisions about its expenditure ought to be based on priorities for the future, not what has been spent in the past ("The importance of being cultured", May 23). The public may have paid for the collections in the national museums, but most of this public is now dead.

The living public is concerned about the way in which its future taxes are spent, and the majority, according to British Social Attitudes, wants less spent on the arts but more spent on education and health. If Mr Fisher is determined to introduce free entry to all museums, he will either have to provide more money or see the museums cut their expenditure. If he seeks to provide more money, he will have to decide what activity deserves less money. Opera? Dance? Theatre? I doubt if any of these options will appeal to him, even if the majority of the public would applaud any cuts.

Free entry to museums may seem desirable among the urban middle classes, who provide most of the native visitors to the London museums. But is it rational to insist that visitors, most of whom can afford to pay something, should pay nothing? Many old Labour policies have benefited the better-off rather than the poor. One might have hoped that New Labour would have meant new thinking about the priorities for public expenditure.

New thinking, it would seem, is limited to believing that if government cannot intervene to make industry more efficient, it can intervene to make the public more creative.

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Friday May 30 1997

Protest votes in Indonesia

Well before the official results are published, it is clear that *the result of yesterday's Indonesian election* will be a victory for the ruling Golkar party on paper only.

This was one of the most violent campaigns in memory, marked by unexpectedly emotional demonstrations of support for opposition leader Megawati Sukarnoputri. The carefully orchestrated election was supposed to reinforce the legitimacy of president Suharto's regime. It appears to have done the opposite.

That should worry multinational companies which have committed \$70bn in direct investment over the past two years. *Indonesia has* suffered less than its neighbours from Asia's slowdown. But with more than 2m youngsters entering the labour force each year it must maintain a high growth rate, and the political risks are mounting.

Judging by the strength of Jakarta equities and the rupiah yesterday, financial markets are assuming the street violence will abate now tha campaign is over. So it might for a while, but *there have been* repeated riots across the country since January, and the underlying problems have not changed.

Indonesia's urban poor are disenchanted by the extent to which a minority has benefited from recent rapid growth. The masses want enfranchisement, while the middle class, which accounts for less than 10 per cent of the 200m population, is too small to be a stabilising force.

At 75, Suharto is growing old and there is no obvious successor. The prominence in the campaign of one of his daughters, Ms Siti Hardiyanti Rukmana, has prompted speculation that she may be angling for the succession. That would go down badly with a public upset by the *manner in* which the Suharto family has enriched itself during his tenure.

Until the succession is settled, political uncertainty will continue to dog the country. That puts the army in a difficult position. It must keep order to the streets, but it must also avoid being seen toternationally as an agent of repression.

The job description for the succession is awesome. What is required is a statesman who can steer the country towards political pluralism, while preserving national unity and social stability. He must enjoy the confidence of the army and may be forced to protect the Suharto family from political reprisals.

In three decades Mr Suharto has raised per capita output from just \$70 to \$1,300. That is a considerable legacy, but it will be threatened unless he sets an orderly succession in train.

Reality Czech

The Czech central bank spent nearly \$3bn, a quarter of its reserves, before the government bowed to the market's judgment that the Czech koruna was overvalued. But the revamped coalition government just formed by Mr Vaclav Klaus still *faces* an uphill struggle to convince investors that the *floating* of the currency and related measures are more than just an austerity package to deal with a short-term crisis.

This is partly because Mr Klaus, who took the credit for macroeconomic stability and what used to be perceived as a successful mass privatisation programme, only reluctantly conceded that changes were needed in the government's economic policy. He remains the dominant force in an only partially rejuvenated government, and has yet to demonstrate that he has the will to restructure the country's industries, banks *and financial institutions.*

The *danger* is *that* investors will regard these measures as just another instalment of the previous package, introduced in April. This cut government spending, capped public-sector wage increases and restricted imports, but left the *impression* that the *government* was only tinkering with the engine rather than changing course. It was that *impression* which left the koruna so vulnerable.

Devaluation, together with add*itional* measures *to* cut social security spending, should give the government a breathing space and help improve Czech competitiveness. The short-term costs will be higher inflation and unemployment, coupled with lower wages and output. Growth, which was stagnant over the first quarter, could be negative for the year as whole, further curbing imports.

The crucial test for the new *government, however, is* not simply whether it can restore macroeconomic stability. Just as important to investors will be whether the government will introduce legislation to set up a US-style Securitlas and Exchange Commission by the May 31 deadline, as promised, and press ahead with privatisation of the banks and other financial-sector reforms.

All of these measures are needed to correct the negative *consequences of* a *mass* privatisation programme which left many Czech enterprises without effective owners, and beholden to investment funds controlled by banks which encouraged them to borrow rather than raise equity funds and bring in new shareholders. Mr Klaus will be judged on his ability to break these incestuous links and provide the transparency which Czech companies and markets desperately need. That process should start now.

UK lottery

Mr Chris Smith, the heritage minister, is very angry indeed. He said so on the radio, before summoning the directors of Camelot, the national lottery operator, to hear his displeasure. He was so angry that he hurled the word "profiteering" at a bonus scheme operating quite properly under the terms of the government's franchise.

No doubt the news from Camelot *that* executives' remuneration was to rise 40 per cent after a year in which sales fell 10 per cent was a bit tactless. Even with £4.7bn of punters' cash sloshing though the accounts, most going to the government or to "good causes", the directors might have remembered the public's fascination with other people's lucky numbers.

These bonuses related to performance two years ago. A 53 per cent rise in the chief executive's pay package to £590,900 looks steep. But this is a matter for the shareholders. They are large companies with power to pull the lotto-bosses into line if they are taking too big a *slice* of the action. However, the shareholders may *not* grudge the payouts. By international standards, Camelot operates efficiently. It has completed its task of installing 36,400 lottery terminals, and it has shown itself to be good at thinking up whizzy ideas to keep the nation dreaming improbable dreams of gold.

If some of the results are distasteful or harmful to low income gamblers, Camelot is hardly to blame. *The last* government established the lottery as a private sector monopoly charged to scoop in as much cash as possible. Camelot won the franchise in fair competition, when it was judged that the best results would be achieved by a company with a strong profits incentive. Tha company has exceeded expecta*tions in this* respect and is well on the way to achieving its target of raising £9bn for worthy causes. In this context, its after tax profit of 1 per cent of sales and running *costs of 3.5 per* cent may not be excessive.

It does not follow that the lottery should be run by a profit-making monopoly for all time. However, before scurrying towards nationalisation, the government should consider whether good causes would get more out of a company forbidden to make profits or from a management not rewarded for performance. It might do better to consider whether to allow *competition into* the lottery business. Although this could rednce overall revenues, it could increase choice to the public and indicate whether bonuses and profits *really* were earned.

But there is no hurry. Camelot's franchise runs for another *five years, time* enough for Mr Smith to weigh the options. Unless, perhaps, he prefers instant *outrage* on the breakfast shows.

In storm-tossed waters

Helmut Kohl's determined pursuit of Emu has brought him into bitter conflict with the Bundesbank, says **Peter Norman**

It was a glittering occasion. The 65th birthday celebrations last August for Mr Hans Tietmeyer, the Bundesbank president, saw Germany's political and financial elite converge on the nation's central bank in Frankfurt.

Especially gratifying for Mr Tietmeyer was the speech of the guest of honour, Mr Helmut Kohl, Germany's chancellor. Ha departed from his prepared text to pledge that Bonn would allow "no rotten compromises" on the road to European economic and monetary union.

Nearly nine months later, on *May 15 1997, Mr Theo Waigel,* Germany's finance minister, is making a flying visit by helicopter to a meeting of the Bundesbank's central council to Frankfurt. *His mission* is to broach the idea of a change to the Bundesbank law to revalue Germany's 95m ounces of gold reserves and use some of the DM40bn (\$23.5bn) of extraordinary profits that would accrue to the bank to meet tha Maastricht treaty criteria for Emu.

If Mr Waigel can place the proceeds of the revaluation in an existing government "redemption account for historic burdens" this year, he will be sure Germany has a *public deficit below 3 per* cent of gross domestic product. Total public debt will be close to the 60 per cent of GDP specified for countries joining the planned European single currency.

The next day, in a packed Bundestag, Mr Kohl airily sweeps aside angry opposition complaints that the government is guilty of "creative accounting" of the sort it has so often criticised in other EU nations.

These are three snapshots en route to a bust-up that has put the Bonn government and tha Bundesbank on a collision course and spawned serious donbts about the single currency and the *stability of German politics.*

The fury of this week's row between Bonn and Bundesbank over Mr Waigel's plan to revalue Germany's gold reserves this year to help Germany qualify for Emn is not without precedent. But the conflict is more than usually flammable because the two institutions ranged against each other – Mr Kohl and tha Bundesbank – are desperate to secure their place in history.

The row comes in a bad week for Emu. Opinion polls suggesting a win by the French left to the final round of the national assembly elections on Sunday have increased uncertainty surrounding France's ability to qualify for tha single currency.

In Germany, a complaint to stop Emu has been lodged with the constitutional court and opin*ion polls continue* to *show* two-thirds of the population opposing the single currency.

Although the Bundesbank is not opposed to Emu, its accusation that the government's action would undermine the credibility and sustainability of the planned single currency has for the first time provided a respectable focus for those who want to keep the D-Mark. Until now Chancellor Kohl has been able to prey on people's fears of appearing unpatriotic or extremist should they refuse to support his drive for ever closer European integration.

The Bundesbank's charge that the government is threatening its independence has also turned the dispute into a highly political affair. The central bank is one of Germany's few revered institutions and the idea that its inde*pendence can guarantee* monetary stability is strongly rooted.

The danger facing Mr Kohl is that the scheduled loss of the D-Mark and the replacement of the Bundesbank by the European central bank from 1999 could trigger a powerful political backlash among an electorate already unnerved hy high unamployment, shrinking welfare benefits and the widely perceived threat of higher taxes.

If voters now have grounds to fear that the euro will be a soft, inflation-prone currancy, the chances of Mr Kohl winning a fifth general election victory term in September next year could nosedive.

In these circumstances, it does not matter that the Bundesbank agrees with the government that tha gold will have to be revalued at *some point as part of the* procedure of starting the euro-area from January 1 1999. Finance ministry promises that only abont half of tha expected DM40bn gain from the gold revaluation will be channelled to Bonn are falling on deaf ears.

The Bundesbank has won the moral high ground with its rejection of the government plan. The few daily newspapers that appeared yesterday – a public holiday in much of Germany – were unanimous in their condemnation of Bonn and fully supportive of the central bank.

To a large extent the government has itself to blame for tha mess. It emerged this week that Mr Tietmeyer had warned against a gold revaluation at a closed meeting of the Bundestag budget committee on March 19, arguing that it could cast doubt on the credibility and solidity of financial policy and generate turbulence on *financial markets.*

On April 17 Mr Tietmeyer aired some of his concerns in public, talling a press conference that gold revaluation was a matter for the *governing council* of the European central bank after it was appointed next year.

That Mr Waigel forged ahead with his plans shows how achieving Emu has become Mr Kohl's paramount objective. This was also apparent at a meeting of the Christian Democrat and Bavarian Christian Social MPs of Mr Kohl's coalition immediately after the minister's mid-May dash to Frankfurt. Although Mr Waigel reported unanimous support for his plans, participants later spoke of a tensa meeting in which few *details were provided, questions* were discouraged and the discussion ended without a formal vote.

Yet it is these MPs, with colleagues from the small Free Democrat party, who will determine whether the government can revalue the gold and bring the proceeds to Bonn.

Mr Kohl has a Bundestag majority of only 10 votes. If his troops stay true to form, they will loyally pass the changes to the Bundesbank law. The fact that Wednesday's government statement rebutting the Bundesbank's objections was issued by Mr Kohl, the other coalition party chairmen and the leaders *of the parties in parliament, sug*gests that the pressure to support the move will be huge.

But German politics has moved into a new and uncertain phase in which old loyalties may huckle. Even if Mr Kohl pushes a new Bundesbank law through the Bundestag and secures the proceeds of the gold – and with that the future of Emu – the events of this extraordinary week may still be felt in 16 months in the German general election.

Tough old bruiser

Andrew Fisher measures the central bank's clout

When the Bundesbank thunders, governments qnail. Germany's independent central bank may not always get its way, but it certainly makes its position clear enough to embarrass politicians and cause them some nasty moments.

The robust way in which the Bundesbank declared its distaste on Wednesday night for the government's gold revaluation plans recalls earlier battles between Frankfurt and Bonn.

While the central bank has won the main conflicts over *monetary policy*, it *has* not always been able to bold its ground when broader political issues are at stake.

But it started life in forceful style. An infuriated Chancellor Konrad Adenauer was frustrated when the Bank dantscher Länder, the Bundesbank's predecessor, put up interest rates by 2 percentage points in 1950, as he tried to reflate the economy. He described a rise in 1956 as a "guillotine" for the economy.

In the early 1970s Mr Karl Schiller, heading both the economics and finance ministries, resigned over a Bundesbank proposal for temporary exchange controls to curb a rapid rise in the D-Mark. A decade later Chancellor *Helmut Schmidt* pleaded in vain for lower interest rates against what ba saw as the central bank's obdurate stance.

The bank can act in this way becanse of independence enshrined in the Bundesbank law. This gives it sole responsibility for monetary policy, with a general obligation to support government policy where this does not conflict with its aim of price stability.

But the central bank's power is not only a matter of legal definition. Tha German pnblic, mindful of tha devastation caused by hyper-inflation and two world wars this century, has tremendous trust and respect for thc Bundesbank as the champion *of stability.*

So the government does not tangle with it lightly. Mr Karl Otto Pöhl, president of the Bundesbank from 1980 to 1991, had central bank tradition on his side when ba clashed with Mr Schmidt's centre-left coalition. After the second oil crisis Germany's current account slid into deficit and tha currency lost nearly 15 per cent of its value between 1979 and 1981.

That was when Mr Pöhl took over, tightening credit to restore stability. The government's position was already weak and Mr Schmidt fell from power in 1982, to be succeeded by Chancellor Helmut Kohl.

It was Mr Kobl who later *showed Mr Pöhl that* the government was perfectly capable of bruising the Bundesbank when the issues were predominantly political. The chancellor announced in February 1990, three months after the fall of the Berlin Wall, thet East Germany would be offered immediata monetary union. Mr Pöhl was caught wrong-footed, since ha was still in East Berlin after talks with East German officials at which they agreed such a union would be premature.

Mr Kohl bad previously dropped no hint of his plans. The government later ignored Bundeshank reservations about the wisdom of over-generous conversion terms between the weak East German currency and the strong D-Mark. In May 1990 Mr Pöhl resigned, partly because of resentment over his treatment on the reunification process.

Rumours that the gold issue would prompt Mr Hans Tietmeyer, tha *present* head of the Bundesbank, to resign have been denied. There has also beeu speculation about the future of Mr Theo Waigel, the finance minister, since it was he who sprung the gold revaluation plan on tha Bundesbank. The immovable object has once again been matched against the irresistible force.

OBSERVER

Drawing lessons

[illegible]

Badawi has conceded that the *cartoons are likely* to be raised during the weekend talks, and has asked Malaysia's newspapers to cool it.

Antler baggage

■ Not only may French President Jacques Chirac heve picked the wrong moment to call a snap general election, but his campaign calls for "a new *élan*" are also backfiring.

Élan also means elk, and since the centre-right's poor showing in Sunday's first round of the contest, cartoonists have been depicting the quadruped in *various kinds of distress. Le Canard Enchaîné* drew the hapless president *gazing* dejectedly at an elk skeleton over a caption describing *élan* as an endangered species.

To add insult to injury, Socialist leader Lionel Jospin is feeling cocky enough to pinch the slogan, urging voters to show their new *élan* by ensuring the left wins in Sunday's decisive vote. Some suggest he may be just as quick to steal centre-right policies if he makes it to the Matignon.

Prodigal returns

■ Sackcloth and ashes at the Colorado Springs headquarters of the International Bible Society, which had planned to *cast upon the waters* a "gender-inclusive" bible. It wanted to revise its New International Version – America's top-selling bible – to ditch references to "men" and used "humans" or "human beings" instead, or to change the text altogether. There were limits, however. Wives were still wives, not spouses, and God remained a He.

The Society said the changes reflected the original Greek and Hebrew, but the powerful conservative lobby smelled political correctness and besieged the publishers by letter, phone and fax. The society has decided not to put its market dominance in jeopardy and backed down. "Our corporate purpose is to serve the church," said a penitent spokeshuman.

Sales push

■ The literary career of financial information entrepreneur Michael Bloomberg is getting off to a great start, at his company's Tokyo offices at any rate. Senior Bloomberg executives have been telling staff that they should go out and buy the modestly-titled *Bloomberg by Bloomberg* – and "make serious noise" in any shop that doesn't stock it.

The nearest English-language book stockist to Bloomberg's Tokyo headquarters quickly sold *out of the \$40-plus hardback, but* the in-house computer system features a regularly updated list of shops where the book is available, so there's no excuse for not having a copy to be signed by tha author when he makes his next visit. If the Tokyo approach is repeated in Bloomberg bureaux worldwide, that's about 3,600 sales just for starters.

Jest heavenly

■ Some Czech chortling over a joke at the expense of the banking sector. A pope and a Czech banker die and ascend to heaven. St Peter welcomes them at the pearly gates. "Both of you were expected. Let me take you to your accommodation."

They arrive at a small, run-down cottage. The banker assumes that he's getting the humble dwelling, but St Peter ushers His Holiness inside and takes the banker further along the road to an enormous, luxurious villa.

"This is what we have reserved for you, sir," St Peter tells the astonished banker. "Surely not," says the Czech. "There must be some mistake." St Peter shakes his head. "I don't think so," he says, checking his clipboard. "After all, you are the first Czech banker we've had."

The Financial Times

50 years ago

German Zone Council
Berlin, 29th May. British and U.S. chiefs, meeting in Berlin to-day, reached agreement for the establishment of an economic council to plan permissible reconstruction in the combined British and U.S. zones of Germany. The agreement provides for a council composed of representatives of the six German states in the British and American occupation zones. The Economic Council would work out ordinances necessary to implement a policy of economic reconstruction in accordance with the principles of the *Potsdam agreement.*

Middle East Oil
Margate, Thursday. The setting up of a joint economic council for the British and American zones in Germany was announced by Mr. Ernest Bevin, Foreign Secretary, when be replied for the platform in to-day's session of the Labour Party conference. In the debate, Mr. Bevin had an easy victory over his critics. Among the points made by Mr. Bevin was the flat refusal to entertain a suggestion from the floor that there should be control by an international body of Middle East oil. *He would never be a* party to putting British interests into a pool when everyone else was sticking to their own.

FINANCIAL TIMES
Friday May 30 1997

Ruling party set for landslide in Indonesia

Golkar ahead in poll despite violent protests

By Manuela Saragosa in Jakarta

Indonesia's ruling party, Golkar, appeared poised last night to secure an even bigger landslide victory than forecast in a general election marred by the violent death of at least 14 people in the occupied territory of East Timor.

Early returns showed Golkar well ahead despite unprecedented levele of anti-government violence during the month-long campaign.

The final result will be declared in two weeks. Golkar was aiming for a target 70.02 per cent of the vote to quash doubts about the legitimacy of the government.

Some 124m people were eligible to vote. It was not clear last night if there had been significant levels of abstention or ballot spoiling, as had been suggested by some opposition groups. In East Timor, which Indonesia invaded in 1975 and continues to occupy in the face of United Nations condemnation, residents spoke of the worst outbreak of violence in two years.

Government officials said on state-owned television that Golkar had won about 87 per cent of the 8.19m votes counted by late yesterday evening, and that the minority Moslem-oriented United Development party (PPP) – which emerged as a protest movement during the campaign – had eecured about 11 per cent.

The clear loser appeared to be the Indonesian Democratic party (PDI), which won only 2 per cent of ballots counted so far. *The party is divided after* the authorities engineered the removal of its popular leader *Ms Megawati Sukarnoputri* last year and replaced her with a government-backed candidate, eparking eome of the worst rioting seen in the capital, Jakarta, in a decade.

A preliminary result from all votes cast will be announced today bnt ballots will be checked again before an official result is announced by ths state-controlled National Election Institute in mid-June.

A poor performance by Golkar would have been regarded as humiliation for a regime keen to start its sixth five-year mandate on a solid footing.

Diplomats say President Suharto, who has ruled since 1967, needed a "fair" Golkar victory as an important precursor to the more important presidential elections echeduled for early next year.

The 75-year-old leader has not yet indicated whether he intends to stand for another term and there has been speculation over the past month over who would be his desig*nated successor.*

Indonesia's financial markets shrugged off the election results. The Jakarta Composite Index closed up 2.5 per cent and the rupiah was stable at 2,440 against the US dollar.

Editorial Comment, Page 21

Diamond dolls head list of HK handover mementos

By John Ridding in Hong Kong

Handover Barbie will step out today, in Hong Kong's swanky Peninsula Hotel. Bidding will start at HK$50,000 ($6,457) for the limited edition of eeven diamond-studded dolls decked in Ch'ing dynasty imperial robes.

The anction is the latest eymptom of souvenir fever heating up ahead of Hong Kong'e transfer of sovereignty. It has spurred a new industry of memorabilia, from badges and T-shirts to the exclusive limited editions of jewellery and ornaments beloved by Hong Kong's high-rollers.

"Hong Kongers can smell money," saye Mr Ronnie Chan, chairman of Hang Lung Development, one of the territory's big developers. And while diplomats and democrats fret abont post-colonial politics, the July handover is giving off a powerful aroma.

Ms Yvonne Ngau, marketing *manager at Mattel East Asia,* said a limited edition Barbie – witbont diamonds – hed *already sold out in spite of its* HK$539.90 price.

Few trinkets come more expensive than the pink-gold watches of Andemars Pignet. At HK$238,000 each, they are beyond the range of many sonvenir bunters, although not beyond Mr Li Ka-shing, the territory'e most prominent tycoon. He bought the first three of a 19-piece series.

Several other watchmakers have *capitalised* on Hong Kong's handover from British rule. Many have produced limited edition watches ranging from HK$19,970 to HK$97,000.

For advertisers, too, the *transfer of sovereignty is* proving something of a windfall. "We have sold all of our slots on the night of the handover," said Mr Leung Kin-wah, controller of sales and marketing at TVB, the territory's biggest broadcaster.

The prime slot, right after midnight, when Hong Kong reverts to China, has been sold to a local travel agent for US$100,000, 50 times the usual rate.

Few businessmen have been as direct as Mr Eddie Li. The watchmaker designed a desktop clock to count down the seconds to Britain's departure. *He sent samples to the Xinhua* newe agency, Beijing'e de facto embassy in the territory, and some were *forwarded to* China's leadership.

Such gestures were apparently well received as Mr Li was appointed a member of the 400-member selection committee wbich chose Hong Kong'e post-colonial leader.

Red bot chip, Page 23

THE LEX COLUMN

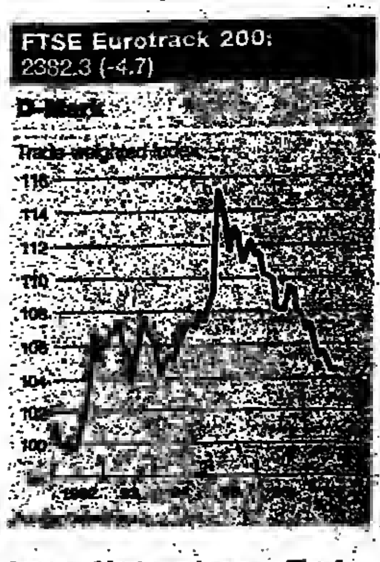
Euro fighters

Bonn and Frankfurt locked in mortal combat. The single currency project in perilous danger. It is gripping stuff – the Eurosceptic dream writ large. But it is also overwrought. The Bundesbank may be a formidable foe, but it is doubtful whether it has either the will or the power to derail monetary union. Chancellor Helmut Kohl, of course, has faced down ths Bundesbank before. But the future of economic and monetary union is anyway more than simply a German concern. The project has enormous momentum; politicians and businesses across Europe have invested heavily in its success. They are unlikely to allow an unelected group of officials to tell them all the pain and sacrifice was for nought.

Moreover, there is little reason for thinking this is the Bundesbank's intention. It bas well-founded misgivings about fiscal trickery among Emu aspirants, but this falls a long way short of wanting to derail the project. And with unemployment over 4m, the German populace is hardly in the mood for further belt-tightening. It is hardly surprising that an institution synonymous with a strong currency should resist ending its days presiding over a weak one. So the Bundesbank'e latest salvo is more likely to be an attempt to ensure Emu'e credibility, not to destroy it.

None of this is to contest the view *that Emu risks have risen.* A skirmish could degenerate into war, the dispute could spark a wave of popu*lar opposition,* Chancellor Kohl could be defeated at the polls. All these are serious risks – and bond prices do not reflect them. But the odds still favour Emu in January 1999, albeit on a broader basis than the Bundesbank would like.

FTSE Eurotrack 200: 2382.3 (-4.7)



China

Pity the Communist party of China. Little over six months ago, a stern editorial in the People's Daily was enough to shock the stock markets. When the party's paper warned that the markets were overheating, prices *tumbled 30* per cent. But this year the adolescsnt exchanges in Shanghai and Shenzhen *are proving* nnruly. China's regulators threatened a crackdown on share trading, suspended dealing in certain stocks, promised to dilute the market with new issues and barred state enterprises from dealing, but to no avail. Share prices have risen by around 40 per cent. Chinese investors have learned the lesson of last year'e scare. The fun*damentals of the market* outweighed Beijing's bluster, and they persist. China is awash with growth and bursting with liquidity. Interest rates fell last year and investors sense another cut in 1997. The government would probably prefer to see more fixed income investment. And with prospective price-earnings ratios on local stocks running as high as 50, *it has* grounds for concern that the market is overheating. But Beijing will be reluctant to flex much muscle, *for fear of sparking* a crash in the weeks before the Hong Kong handover.

As more locals see the profits being made on equities, funds will continue to switch from bank deposits into a small selection of shares. The froth is unlikely to be wiped off until appetites are sated with much more new equity. And while the government has made a start, it has a long way to go.

Eurotunnel

Suspend disbelief for a moment and imagine you are insanely trusting. What would Eurotunnel's latest imaginative financial projections tell you about the shares?

The arithmetic is simple enough in principle. Eurotunnel says it will pay *all its after-tax profits out* in dividends. And it is helpfully providing shareholders with new profit forecasts, under two scenarios, over the life of the project. So suppose you believe these figures; average them, discount them at a charitabls 10 per cent and adjust for the heavy dilution of existing shareholders. The depressing result is that the company's own forecasts suggest a theoretical value of just 45p or so a share – 35 per sent below the current price – with perhaps a smidgeon on top for the off-chance of a further government bail-out.

But even this figure looks over*optimistic.* One reason is that the company's forecasts still look too hopeful. They paint a Panglossian *picture of inexorably blossoming* demand coupled with cosy fare inflation – a combination difficult *to reconcile with the long and bitter* experience of the world's airlines. The share price also needs to reflect the danger that the *project's lend*ers or shareholders could yet vote the restructuring down. This would *destroy any value for shareholders.* And irrational or not, the possibility remains real.

Siebe

Siebe has had *a great* five years. Since 1992 it has produced compound annual earnings growth of 20 per cent, twice the average of the other big UK engineers. But despite the bullishness of its management yesterday – never quietly confident when loudly will do – the next five years will be harder; earnings growth is slowing and the quality of those earnings is decreasing.

The slowdown is simply a reflection of the extraordinary success of *Siebe's control systems business* since 1990. But worldwide growth rates in control systems have halved to 4 per cent over the past year, while the switch from Unix-based to Windows-based operating systems is eroding the group's technological lead. It would be wrong to underestimate Siebe'e momentum. But earnings growth is expected to moderate to 10-11 per cent in each of the next three years.

The proposed acquisition of APV would raise that by a point or two. But, added to Siebe's laggardly industrial equipment division, around a fifth of future profits would then come from cyclical, low-quality businesses. Of course Siebe could sell industrial equipment. The problem is that consolidation has limited opportunities in its core *controls business, so it might end* up buying another ancillary business like APV.

Siebe remains a *strong* company. And after severe underperformance this year, its shares now stand at only a 5 per cent premium to the market average. But with most engineers trading at a discount, that looks fair enough.

Additional Lex on M&G, Page 29

Clinton and Blair

Continued from Page 1

Blair. The two leaders, who bave much in common and already know each other well, made clear that they get on well on a personal level.

Although Mr Clinton said he had a good working relationship with Mr Blair's predecessor, *Mr John Major,* he did not disguise his enthusiasm at the Labour leader'a May 1 election euccess.

The president was full of praise for the UK govern*ment's first few weeks in* office, paying tribute in particular to its attempt to restart the Northern Ireland peace process.

And giving strong backing to the government's approach, Mr Clinton called on the IRA to renew their ceasefire. "Again I urge the IRA to lay down their guns for good and for all parties to turn their efforts to building the peace together," he said.

Earlier Mr Clinton became the first American president to attend a UK cabinet meeting since 1969, where he joked with ministers in front of the television cameras.

DT search

Continued from Page 1

Investment bankers said a strategic deal was preferable to a premature public offering which would damage the market for DT shares. "DT's strategy is trying to make the best of a bad thing," said one of ths company's advisers.

Singapore leaders awarded $5.6m in libel damages

By James Kynge in Kuala Lumpur

A Singapore court yesterday awarded a record S$8.08m (US$5.6m) in libel damages to Mr Goh Chok Tong, prime minister, *Mr* Lee Kuan Yew, senior minister, and nine other People's Action Party figures *after a ssries of actions* brought against a politician who called them liars.

Mr Lee Kuan Yew, Singapore's first prime minister, was awarded S$2.3m. His son Mr Lee Hsien Loong, deputy prime minister, won S$1.3m and Mr Goh received S$1.4m.

The damages were awarded against opposition politician Mr Tang Liang Hong, who narrowly failed to win a seat in last January's general election. The court found against him on 13 counts of defamation in March, bnt deferred sentencing.

Mr Tang did not defend himself at tbs March bearings, having fled ths country shortly after ths election alleg*ing threats to his life. He has* not returned to Singapore.

Yesterday Mr Chao Hick Tin, a high court judge who read out the 63-page ruling against Mr Tang, said: "This court must show its indignation at the injury inflicted on the plaintiffs."

Mr Tang first called the PAP leaders liars during the eiection campaign after they branded him a "Chinese chauvinist" who could sow racial discord in Singapore, a multiracial society dominated by ethnic Chinese. He repeated the accusation after he fled the country.

There was ample evidence, *Mr Chao said,* to conclude that Mr Tang was indeed a Chinese chauvinist who was also anti-*Christian and critical of Singa*poreans educated primarily in the English language.

The record damages against Mr Tang were justified, he eaid, because "the injury, embarraesment and hurt caused [were] much greater" than in previous cases.

The damages awarded were lower than the S$12.9m the plaintiffs bad demanded. Mr Chao warned, however, that Mr Tang could be further "dealt with for scandalising the court". The authorities have also served a warrant for his arrest on 33 charges of alleged tax evasion.

Singapore's leaders zealously guard their reputation and havs won a string of court *cases against* newspspers, magazines and opposition politicians.

However observers say Singapore's image may have been damaged by the highly-publicised court battle against Mr Tang. It has drawn criticism not only from the west but also from influential commentators in neighbouring Malaysia, with whicb relations are cool.

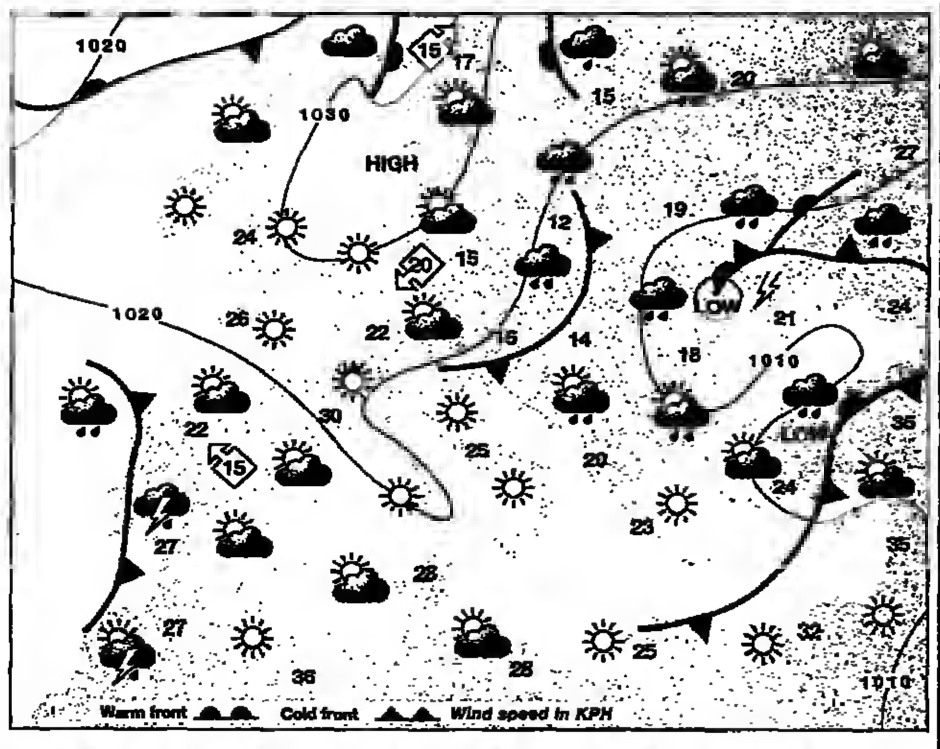
FT WEATHER GUIDE

Europe today

Sunny spells are likely over most of western Europe owing to a stationary high over the North Sea. *Thunder showers will develop in* mild and moist air over the Iberian peninsula. Sunny spells are also expected around the Mediterranean from Majorca to the Middle-East. Showers are possible over the Alps in the afternoon. Low pressure will cause widespread cloud and rain from the Balkans to the Ukraine and parts of Russia. Southern Scandinavia will be fair. Several showers will develop over Finland along the boundary of cool and mild air. *Temperatures will* exceed 30C in southern France and Spain.

Five-day forecast

Sunny periods will persist over western Europe as the high remains over the North Sea until Monday. Abundant showers are expected over Spain and they will gradually shift east over tha Mediterranean from Sunday.



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

	Maximum	Beijing	fair 28	Caracas	fair 30	Faro	shower 23	Madrid	thund 26	Rangoon	shower 33
	Celsius	Belfast	sun 23	Cardiff	sun 23	Frankfurt	fair 21	Majorca	cloudy 27	Reykjavik	cloudy 9
Abu Dhabi	sun 40	Belgrade	rain 15	Casablanca	fair 23	Geneva	sun 24	Malta	fair 25	Rio	rain 21
Accra	shower 30	Berlin	shower 15	Chicago	cloudy 19	Gibraltar	thund 24	Manchester	sun 24	Rome	sun 25
Algiers	fair 28	Bermuda	fair 27	Cologne	sun 20	Glasgow	sun 22	Manila	thund 34	S. Frsco	sun 24
Amsterdam	sun 20	Bogota	fair 19	Dakar	sun 27	Hamburg	sun 18	Melbourne	shower 15	Seoul	thund 18
Athens	sun 23	Bombay	fair 33	Dallas	cloudy 31	Helsinki	shower 15	Mexico City	cloudy 28	Singapore	fair 33
Atlanta	shower 24	Brussels	sun 20	Delhi	fair 40	Hong Kong	cloudy 27	Miami	fair 30	Stockholm	fair 15
B. Aires	fair 16	Budapest	shower 14	Dubai	sun 38	Honolulu	fair 31	Milan	fair 24	Strasbourg	sun 22
B.ham	sun 24	C.hagen	fair 16	Dublin	sun 22	Istanbul	fair 20	Montreal	shower 23	Sydney	sun 20
Bangkok	shower 37	Cairo	sun 32	Dubrovnik	rain 20	Jakarta	shower 32	Moscow	rain 18	Tangier	thund 24
Barcelona	fair 24	Cape Town	sun 21	Edinburgh	fair 21	Jersey	sun 16	Munich	shower 19	Tel Aviv	sun 27
						Karachi	fair 36	Nairobi	fair 26	Tokyo	rain 21
						Kuwait	sun 42	Naples	sun 23	Toronto	shower 22
						L. Angeles	sun 30	Nassau	fair 31	Vancouver	cloudy 21
						Las Palmas	fair 26	New York	fair 21	Venice	sun 23
						Lima	fair 25	Nice	sun 25	Vienna	shower 14
						Lisbon	shower 25	Nicosia	fair 30	Warsaw	rain 12
						London	sun 25	Oslo	cloudy 18	Washington	fair 22
						Lux.bourg	sun 21	Paris	sun 25	Wellington	shower 15
						Lyon	sun 26	Perth	rain 18	Winnipeg	fair 25
						Madeira	shower 21	Prague	shower 13	Zurich	fair 19

MANAGEMENT BUY-OUTS

Symptoms of the excesses committed in the late 1980s have reappeared as venture capitalists vie for business. **Katharine Campbell** reports

Prices rise as competition intensifies

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- Advisers Page 3
- Serial entrepreneurs
- 3i Page 4
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- Secondary buy-outs
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- France

Is it a case of 1989 revisited?

The excesses committed during the last peak of activity in the cyclical UK buy-out industry were quickly thrown into sharp relief by the deep recession that followed. Transactions such as Isosceles, the £2.4bn buy-in of the Gateway supermarket group, went spectacularly wrong; senior debt providers and private equity specialists retired to lick their wounds.

Last year, the volume of UK management buy-outs just exceeded 1989 levels by some measures. Buy-outs and buy-ins with total funding of more than £10m amounted to £5.91bn, according to figures by KPMG Corporate Finance, compared with £5.89bn in 1989. Volumes grew apace in the first quarter of 1997 with deals worth £1.97bn recorded, a 42 per cent increase compared with 1996.

Many of the symptoms of the last cyclical peak – notably record supplies of capital being invested in overpriced and or highly geared businesses – have reappeared. But buy-out specialists are counting on the economy staying considerably healthier this time around.

Optimists maintain that lessons have been well learned, and investment strategies are much wiser. Mr John Hall, deputy managing director of Cinven, which continues to build aggressively its presence in the largest transactions, remarks: "I think things are very different this time. Remember it was a very young industry in 1989, and it was the first recession we had been through."

Others are not so sure. "There are more venture capitalists fighting and killing each other for the deal than there were last time," says Mr Frank Neale, a partner at PhilDrew Ventures. "It is frightening in some ways."

Mr Rhoddy Swire, chairman of Pantheon, a so-called gatekeeper investing in other funds on behalf of institutional clients, adds: "There is too much money flying around, there will be excesses."

A favourable exit climate for investments made in the recessionary early 1990s means that most funds have impressive numbers to show potential investors at present.

The odd spectacular exit – notably the sale of Porterbrook, the rail leasing company, to bns company Stagecoach seven months after Charterhouse Development Capital led the purchase from the government – has underlined the potential returns to be garnered. So institutions are pouring money into UK private equity, with US state pension funds this time around swelling the coffers. In 1996, independent funds raised £2.4bn, according to the British Venture Capital Association.

Senior debt providers and investment banks are also jostling fiercely in the sector. Salomon Brothers has just set up a European leveraged acquisition finance team in London.

Competition is fuelling innovative financing techniques and US investment banks are behind the long-awaited arrival of a European junk bond market.

This embarrassment of riches is driving prices inexorably upwards. Mr Neil Brown, partner in charge of buy-outs at Apax, observes: "People are paying 10 times [earnings] multiples for some pretty lousy businesses."

Moreover, financial purchasers are regularly outbidding trade buyers at the ever more efficient auctions staged by the merchant banks. Granada, the media and leisure group, sold Welcome Break, the motorway service station chain, to an institutional buy-out led by investment group Investcorp, for £473m, achieving a 43 per cent premium to book value.

The range of bids at auctions also tells a tale of competition, rather than valuations, driving pricing. At the end of last year, Inchcape Testing was sold to Charterhouse for £380m, at a multiple of 13 times historical operating profits, whereas one venture capitalist reckoned the service-based business was worth no more than his bid of £260m.

The junk bond element in some of today's structures also enables higher prices to be paid, but may well depress eventual returns to private equity funds. Mr Mike Stevens, head of management buy-out services at KPMG corporate finance, argues: "The perception is that venture capitalists will make more money [in deals using junk paper], but what happens is that everyone needs to offer this type of debt to get in on the transaction and the price goes up. Everyone is working off the same calculations."

Other potential signs of cnt-throat competition abound. Electra Fleming's white knight management buy-out of William Cook served as a reminder that the last spate of public companies being taken private, with all the attendant problems, was at the end of the 1980s.

As for gearing levels, most operators take comfort from the fact that the tottering structures that characterised that period have not reemerged. However, a new measure compiled jointly by Mercury Asset Management Private Equity and Initiative Europe, publisher of specialist newsletter Unquote, shows that gearing is creeping up in buy-outs over £10m with mezzanine financing. Gearing (as measured by senior debt plus mezzanine) has risen to 67 per cent from 57 per cent in the last three years.

Mr Ian Forrest, managing director of HSBC Private Equity, points out that gearing is lower than at the peak of the last cycle partly because prices are higher and the equity portion of the deal larger. "The debt is still the same as a proportion of cash flow; and the equity return will be lower because there is more equity."

The response to tougher market conditions is to find ways to "add value" – the industry's current mantra. As Mr Ian Armitage, who runs Mercury Asset Management Private Equity, remarks: "You have to assume you get 20 per cent smarter every year."

But Mr Mike Wright, director of the Centre for Management Buy-out Research at Nottingham University, is sceptical. "Adding value is a very glib phrase. Where do the institutions get the skills to add valne?" Mr Swire adds: "People who have

continued on page 2

Prices rise as deals surge

continued from page 1

produced high returns in the last five years may or may not have added value. With hindsight, buy-outs in the early 1990s were a doddle."

In a sector that is still dominated by accountants – whose aptitudes were arguably more suited to the days when buy-outs were largely a matter of astute financial engineering – there is the makings of an identity crisis. "They are going to have to be industry players, it requires a different skill base," says Mr Jon Moulton, formerly of Schroder Ventures and then Apax, both houses that have worked hard at accumulating industry expertise.

Others feel that private equity houses are better advised to seek such experience *externally, introducing* part-time chairmen to investee companies.

Mr Richard Raworth, chairman of Digital Projection and a number of other buy-outs, notes: "[Private equity players] tend to think as investors. They may be good at monitoring investments, but they are more often weak at developing strategy."

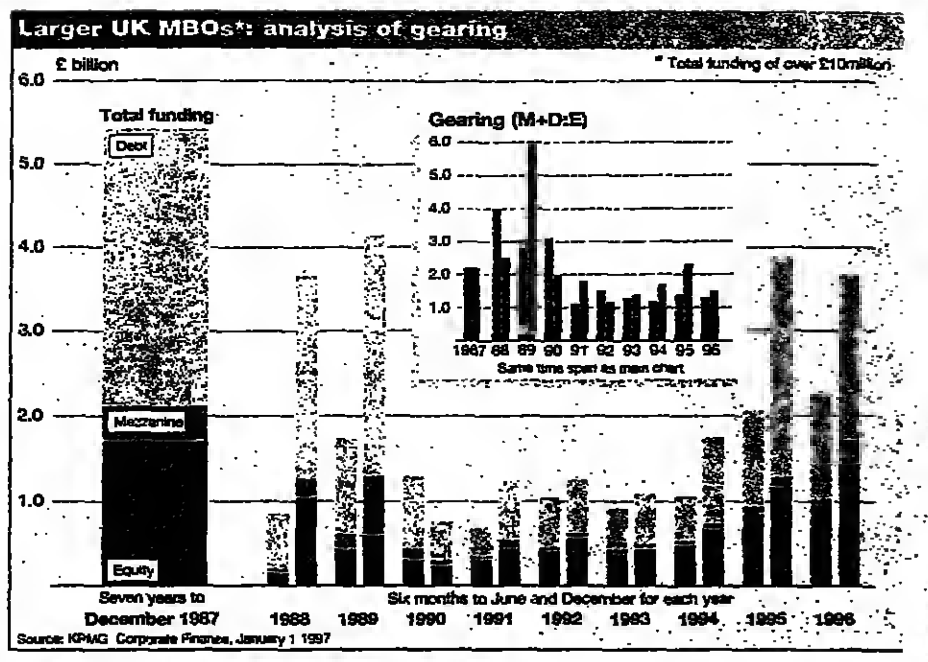
The other response to an overheated UK marketplace has been to expand into continental Europe, where competition is less fierce. German companies are finally beginning to restructure, helping fuel a doubling in the local buy-out market last year to £1.15bn, according to figures from Initiative Europe, the specialist publisher, and CMBOR.

But Ms Carol Kennedy at Pantheon has reservations. "Superficially the grass is greener, but in the near term it is a potential minefield. Investors lack experience – and too few have worked out how they will sell a business if the less developed continental stock markets fail to provide a real exit," she argues. Mr Mike Proudlock, chairman of Granville Private Equity Managers, shares her concerns:"It is really quite worrying that UK private equity houses are setting up look-alike operations with little or no regard for local customs and practices."

The pressure is unlikely to abate for some while. "I think the market will remain fairly hot this year and probably not cool until next," Mr Stevens predicts. Large companies will continue to divest non-core subsidiaries, and even the supply of buy-outs from private companies may not stall. While there had been a rush of owner-managers selling out ahead of the election, high prices have themselves encouraged sales, a phenomenon which is likely to continue.

Meanwhile, a turn in public equity markets may, when it comes, finally persuade buy-out specialists to pause for reflection as regards the prices they are paying and the structures into which they are entering. Unless one or two of the more extravagant transactions of past months go wrong first.

Larger UK MBOs*: analysis of gearing



Source: KPMG Corporate Finance, January 1 1997

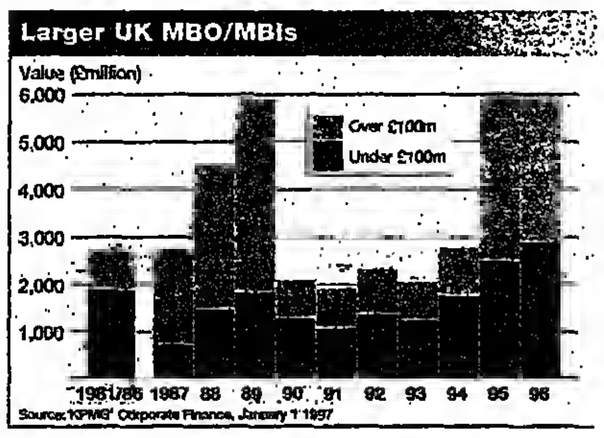
Leading equity arrangers

January 1 1990 - December 31 1996

Equity deal leader	Number of deals	Total funding £m	Average value £m
3i	112	2,582	23
NatWest Ventures	44	1,488	34
CINVen	39	3,454	89
HSBC Private Equity	27	1,094	40
Schroder Ventures	24	1,034	43
Legal & General Ventures	21	1,047	50
Candover Investments	20	1,884	94
Phildrew Ventures	20	604	30
Electra Fleming	16	1,507	94
Charterhouse Development Capital	14	1,761	126
Murray Johnstone Private Equity	14	301	22
BZW Private Equity	13	430	33
Prudential Venture Managers	12	743	62
Kleinwort Benson Development Capital	12	427	36
Apax Partners	11	559	51
Granville Private Equity Managers	10	190	19
Mercury Development Capital	10	604	60
Morgan Grenfell Development Capital	10	777	78

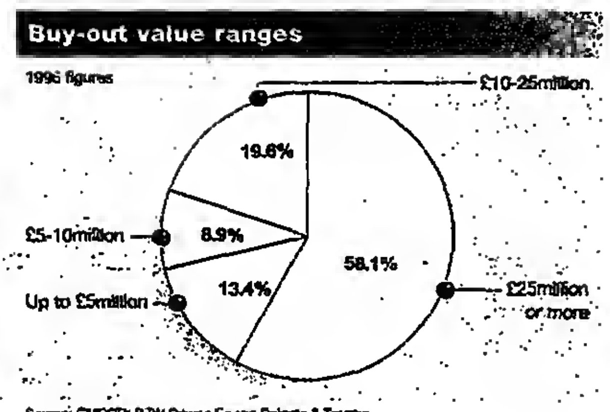
Qualification: Larger UK MBOs with total funding of over £10m, led ten or more deals
Source: KPMG Corporate Finance

Larger UK MBO/MBIs



Source: KPMG Corporate Finance, January 1 1997

Buy-out value ranges



Source: CMBOR; BZW Private Equity; Deloitte & Touche

PRIVATISATIONS • by Ian Hamilton Fazey

A change of emphasis to 'what works best'

Corporate finance executives are optimistic Labour will adopt a positive approach

Privatisations continued almost to the eve of the general election, in a rush to complete deals still in negotiation before the government could change. One example was ADAS, the government agency for agricultural research, development, laboratory and consultancy services, which was bought by its management and employees in April.

The main investor was 3i, which contributed half of the £16.8m finance and got 80 per cent of the equity. The Bank of Scotland provided debt facilities. Two-thirds of ADAS's business is with the private sector, providing consultancy and research services to farmers, food processors, retailers and agrochemical and packaging companies.

Another privatisation had been announced only days before, at the end of March. This one involved BBC World Service Transmission, which transmits BBC World Service radio programmes worldwide. The price was £21m and the buyers were the management and employees, supported by 3i, Midland Bank and HSBC Investment Bank. The new company will be called Merlin Communications International.

Also in April, a consortium of management, employees, 3i and the Royal Institute of Chemistry bought LGC, the Laboratory of the Government Chemist. Total funding of £5m came from the consortium and Midland Bank, with many staff buying shares. Options to buy more have been available to all employees.

The question now is whether these will prove to have been the last of the privatisation buyouts that have been such an important element of venture capital markets during the John Major government. After all, Labour has played the leading part in organising the vigorous anti-privatisation lobby, particularly on railways.

Philip Needham, chief executive of ADAS, which was bought by its management and employees just before the general election

Unexpectedly, perhaps, corporate finance executives are optimistic that not much change is likely. "In terms of improving services to the public and saving public money, privatisation buy-outs have been very successful," one leading adviser says.

"Many of us have been in dialogue with Labour representatives. They are sensible, practical people. There might be a pause in privatisations while a modified approach is developed, but because of pledges on taxes, the government is going to have to raise money from somewhere to plug holes in the public finances."

If privatisation is looked at as a means of getting the private sector to invest in public services, what many think likely is more a shift of emphasis than a rigid retention of state ownership – and certainly not renationalisation. Mr Mike Stevens, UK head of MBO services at KPMG Corporate Finance, for example, talks of finding new ways of "structuring financial buying-in or even just plain lending".

A reformulated private finance initiative will be one means of getting money in. Mr John Prescott, deputy prime minister, will have the key role in this. "We have to look at what works best," he said after his appointment. Crucial influence will come from his adviser and ally Mr David Taylor, chief executive of Lancashire Enterprises, a company set up by Lancashire County Council 16 years ago, to which the council outsourced economic development.

Not only did Lancashire Enterprises work closely with the private sector in both property and industrial development, it privatised itself when threatened with closure by the Thatcher government. It has since won numerous EU contracts in the former Soviet bloc implementing economic reform and local development, usually involving privatisation and private investment.

A year ago, Mr Taylor was chief executive of English Partnerships under Lord Walker, an appointment in the Conservative government's gift. He resigned to return to his old job at Lancashire Enterprises to spend more time nearer his family in the north and support his wife's recovery from illness.

Now he will have a key role with Mr Prescott. Significantly, one of Mr Prescott's leading political supporters in the intake of new MPs is Mrs Louise Ellman, former leader of Lancashire County Council and one of the founders of Lancashire Enterprises, of which she was until recently deputy chairman.

The signs, therefore, are that privatisation will continue in some form, even if under another name. Mr Hugh Richards, 3i's specialist in the area, says: "There is a momentum it would be very difficult to stop. The private finance initiative has a sound logic which Labour recognised when still in opposition. The initiative has struggled because of uncertainty. Now that uncertainty has been removed, it may well be reinvigorated. The contracting out of public services has also worked well."

If, in effect, privatisation programmes carry on, Labour's political difficulty is thought likely to be the anti-privatisation lobby, which, though led and supported by an old Labour core, New Labour was happy to use to harry the Conservative *government.*

With Labour in government, many of its supporters are expected to drift away, but venture capital industry investors and advisers are braced for continuing resistance by a hard core. Further railway privatisations will be one target.

Tighter regulation of privatised services is expected to be the government's answer.

BUY and BUILD • by Katharine Campbell

Follow-on acquisitions

The Euramax buy-out rapidly sought to make further purchases to add value

The constant search for ways to "add value" to investments has fuelled the rise in Europe of a structure hitherto largely the preserve of the American market – the leveraged build-up, where an initial buy-out company is used as a platform onto which to bolt further acquisitions.

"All the research shows that two thirds of acquisitions do not work for the buyer," acknowledges Mr Ian Armitage, who runs Mercury Asset Management Private Equity, an active proponent of LBUs. "But the success rate of the strategic buyer is much higher – in cases where you can share costs and or customers."

Others are not so sure. Mr Chris Tennant, a partner at *PhilDrew Ventures,* says: "In principle, it's a great idea. But if you miss the first acquisition, you may get more desperate to win the second – and end up overpaying."

CVC Capital Partners, which last September led the £190m buy-out of Euramax International, a set of international fabricated products businesses, from Alumax, the US aluminium group, reckons one reason that LBUs work is precisely because venture capitalists provide a certain financial discipline. "We are not going to overpay for a business," says Mr Ty Comfort at CVC in London.

Euramax is an example of an aggressively leveraged transaction, financed by high yield debt, which has already completed two acquisitions, and has others in the pipeline.

CVC, itself a buy-out from Citibank, reckons it had an edge right from the initial *purchase because it teamed* up with Citicorp Venture Capital in New York, (still a *subsidiary of the US bank).* The North American and European operations were being auctioned off separately and CVC was the only group to bid for both parts. Other European buyers had been "thrown off by the fact that European trading had been very weak and it looked as if it would not make budget in 1996," says Mr Comfort.

In fact, the company achieved $35m (£21.6m) in earnings before interest and tax on sales of $500m (£309m) fulfilling budget projections after all.

It was financed in part through a $135m high yield bond, arranged by JP Morgan, the US investment bank, which CVC argues is a particularly appropriate form of financing for a leveraged build-up. "It takes a leap of faith to understand how high yield debt makes a deal safer, but it does," says Mr Comfort.

The coupon of 11.125 per cent represents good value compared with senior debt, he argues, and is a lot lower than rates borrowers were paying in the late 1980s. Moreover, unlike senior debt, the company repays it in a lump at the end of the life of the 10-year bond. Also, there are no covenants; instead there is a certain ratio of cash flow to interest cover that Euramax has to fulfil.

"Every time you do another acquisition, you can increase the amount of debt without having to renegotiate everything – you just have to meet that one test," he says.

The overall transaction, which includes a big portion of senior debt, is highly leveraged – although the size of the equity investment has not been disclosed. "The high yield market doesn't care about the proportion of equity, it only focuses on the coverage ratio," Mr Comfort points out.

Ty Comfort: "We are not going to overpay for a business"

Euramax's first, small, acquisition was signed in April – *of JTJ Laminating,* based in Indiana. Earlier this month, it acquired Fabral, a *Pennsylvania company* making steel and aluminium building panels.

The *latter* was financed with $70m (£43.2m) of bank debt – and no additional equity. "We can do this not because the banks are lending recklessly but because Euramax has made significant working capital savings and the earnings have been extremely strong in 1997," he explains. Hence the company has been able to repay significant amounts of the original senior debt.

He also reckons the purchase was reasonably priced – at an earnings before interest and tax multiple of seven. "Prices are lower in the US than in the UK because there is this bias towards growth." Hence low growth businesses command proportionately lower prices.

The London and New York venture capitalists have an unusually high representation on the board – four directors out of the seven. "As venture capitalists, we have more familiarity with actually *negotiating the* purchase and financing of a deal. That allows management *to focus on what they* are best at," is Mr Comfort's reasoning.

CVC also brought in Mr Stuart Wallis, former chief executive of Fisons, as non-executive chairman. Mr Comfort says he was looking for "someone with the vision to guide the management through the various opportunities, especially in Europe, as well as to help with a future flotation". An industry expert was not needed, because Euramax's business was highly specialised and most of the incumbent team had worked in the field for many years.

On this basis, the management were apportioned a 15 per cent share of the buy-out – if Mr Wallis's stake is included.

Meanwhile, the timetable for growth by acquisition – mostly in North America, where restructuring is fuelling plenty of opportunities – is ambitious. "We have been told we could float early next year, but we have to digest the acquisitions," Mr Comfort remarks. He says management are aiming at $1bn (£0.60bn) of sales before a possible flotation – which he reckons could be achieved within two years.

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SERIAL ENTREPRENEURS • by Katharine Campbell

Search for tried and tested talent

The executive who has already pulled off a deal is often a better bet for backers

Private equity specialists get inundated with *curriculum vitae*. Too many are from executives simply looking for a job.

But as the UK buy-out market matures, a cadre is emerging of so-called serial entrepreneurs – managers who have successfully pulled off one buy-out and who are not ready to retire on the proceeds. They tend to represent a better bet for their backers than the untried executive, however talented.

Mr Phil Tempest is one of these. He has led a traditional management buy-out, is now running a buy-in turnaround, and is chairing an institutional buy-out. Schroder Ventures has been behind him in each case – and even offered him a job as a venture capitalist, which he took for five months before deciding he preferred getting his hands dirty to investing.

A mechanical engineer, Mr Tempest had been climbing the tree at Schlumberger, the Franco-American oil services and measurement systems group, when the first buy-out opportunity emerged. In 1991, as managing director of the UK electricity metering activities, he had been given additional responsibility for the instruments and transducer business. "It was in a bit of a mess, and losing money. I asked [Schlumberger] what they wanted to do with it. I didn't get an answer."

Two years later, Schlumberger's president was visiting, and Mr Tempest cornered him: "Over a cup of coffee he decided to sell." Mr Tempest contacted prospective trade buyers, but the unit comprised four separate businesses – difficult to sell as a package. So he began considering a buy-out. After seeing a number of venture capitalists, he took to Schroder Ventures "because they talked to you as an industrialist. The others didn't have any interest in the business, I could have been making chocolates as far as they were concerned – as long as the numbers made sense".

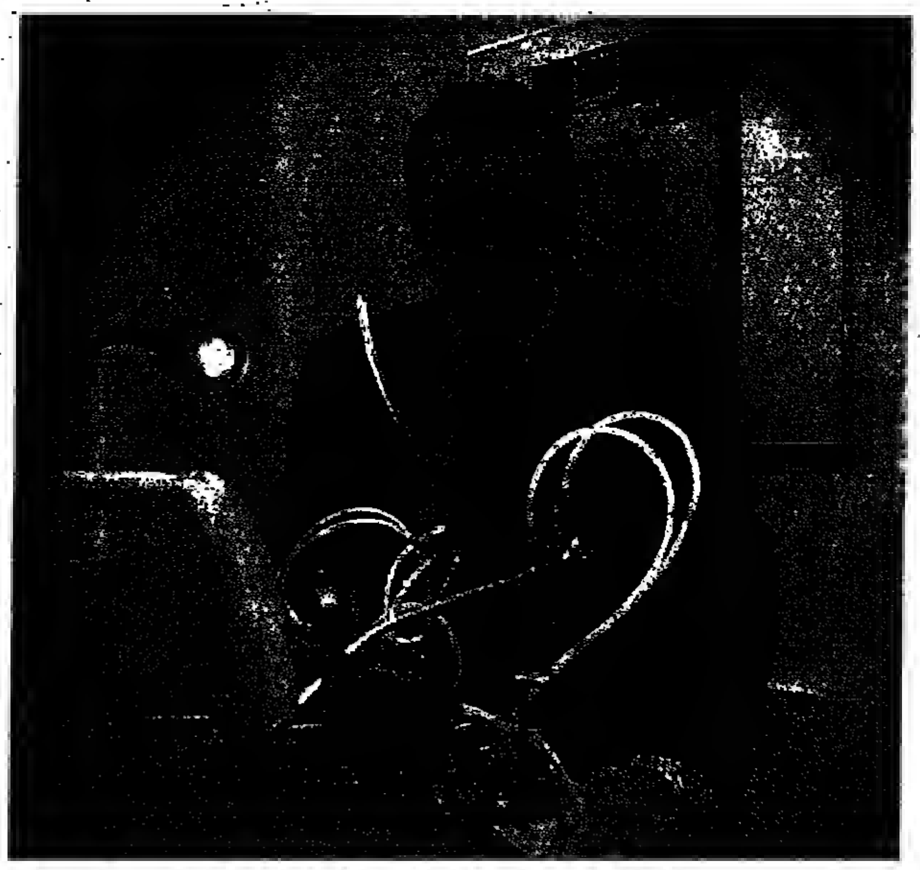
Then arose the conflict of interest inherent in most buy-outs. "Schlumberger instructed me to stay out of the business completely. It was very difficult," he says. The more so because another financial purchaser invited to bid to provide competition against Schroders attempted to woo him to jump ship. "It was nerve-racking. I didn't know who was going to win; and my career with Schlumberger was effectively over."

Eventually, the Schroders-backed team secured the renamed Solartron for £37m, and Mr Tempest went in as chief executive. But it was a mere six months before the group was purchased by Roxboro – another Schroders-backed business whose chief executive had worked at Schlumberger – for £55m plus another £10m dependent on certain profits growth targets being met over the following year. "It was a stroke of good luck that Roxboro was floating just when we were negotiating the buy-out," says Mr Tempest, and hence did not bid.

He joined the Roxboro board as part of the deal, staying on until the end of 1995. The following April he joined Schroders "with the intention of becoming a venture capitalist".

There his first big transaction was as part of the team effecting the £80m buy-out of the Lister-Petter diesel engine business out of BTR. He is now non-executive chairman.

Because this was an institutional purchase, with Schroders negotiating directly with BTR, the dynamics were quite different from Mr Tempest's first buy-out experience. "The management almost felt they had swapped BTR as an employer for Schroders," he says. "Getting the culture change across has been difficult, and we have had to put in more new people than we planned in order to do that."



Phil Tempest: 'There was a fear we were going to come in as asset-strippers' Chadwicks

A new chief executive, Ms Bonnie Dean, who in the past had worked for Cummins, the US diesel engine maker, was installed at the start of the year.

Mr Tempest then became involved in the buy-in of a group of companies out of Rank Group – a complicated deal with several unexpected outcomes.

The leisure organisation was disposing of Taylor Hobson, manufacturer of precision measuring instruments and machine tools; Cintel, which manufacturers telecine equipment; Brimar, which makes electronic display products; Strand Lighting, supplying the entertainment industry, and Digital Projection, which is developing large-screen digital video projectors. Advised by Schroders, Rank wanted to sell all five businesses to the same buyer, and Schroder Ventures got an early look.

The projectors operation was dismissed as "too much of a gamble" although there was "quite a hassle with Rank" when Schroders said it was not going to buy it, according to Mr Tempest.

Meanwhile, he was beginning to realise that it was Taylor Hobson that was "the real attraction. Anyone who has done a mechanical engineering degree in the last 30 years knows Taylor Hobson". The factory, however, "was not a pretty site. There was stock everywhere. They were very late delivering the product, and sometimes it wasn't in good shape. But the order book was growing". Last year sales were £45m and profits "negligible".

He says Schroder Ventures concluded that it would have to change the management radically. The Schroders team examined its list of contacts to find someone to parachute in. Mr Tempest quickly decided that he wanted to do it himself – which meant leaving his venture capital job.

Cintel, Brimar, and Taylor Hobson were acquired for £77m in October (with Strand Lighting purchased by Schroders separately), and Mr Tempest immediately began looking for a buyer for Cintel. "It was an industry I knew nothing about, and it had a huge market share in a tiny niche". Although he would have been "reasonably happy" keeping Brimar, he received an unsolicited approach from 3i, which has now backed a purchase of both Cintel and Brimar for £48m, including some working capital facilities.

Last November, he cut 20 per cent of the non-production workforce. Morale had been bad enough as it was. "There was a fear we were going to come in as asset-strippers, sell in short order and run for the hills. I don't pretend I have won everyone over, but I am trying."

The whole task is proving harder than anticipated. "Management systems are in a much worse state than I first thought and the culture is more ingrained." He reckons it could take five years to turn around – when he reckons he will have had enough of turnarounds, and envisages seeing out his career with the odd investing chairmanship.

ADVISERS • by Peter John

In from start to finish

Roles have been blurred and there is a trend towards actively searching out possible deals

With the buoyant trend for management buy-outs continuing, it is understandable that the accountants and lawyers who advise on deals are in puckish mood.

Recent growth has been greatest in the relatively small number of high value deals.

Last year there were only 54 deals worth more than £25m compared with 480 worth between £1m and £25m. However, the high value deals accounted for £5.3bn as opposed to £2.25bn for the smaller deals.

Consequently, firms have been beefing up their teams and approaches to equip themselves for a highly competitive environment. And, accordingly, roles have blurred with accountants branching out into the venture capitalists' patch and lawyers shuffling into accountants' territory.

The Big Six accountancy firms began as hand-holders for companies which felt they lacked the relevant experience. And for mainstream deals, that role has remained unchanged when firms are approached by client.

However, there is an increasing trend towards origination. MBO teams have been trawling through balance sheets looking for companies that have been underperforming significantly. And they have been ploughing through annual statements hoping to spot companies where there is a succession problem.

At the top end of the market, where the activity is at its most demanding and the fees at their highest, there has been a quiet revolution.

Mr Chris Ward the head of private equity at Deloitte Touche's corporate finance department said: "We are now working alongside the venture capitalists such as Cinven, KKR and 3i to provide the extra arms and legs.

"We are working on the structuring, modelling and project management of deals rather than the bog standard due diligence. We are asked for significant grass roots involvement with marketing, tax and pensions."

He cites the recent £104m NAAFI Financial Services deal. "We were in at the beginning as the originators. We brought in a buy-in candidate, project managed it from start to finish and put the debt financing together."

And while it may appear a big commitment, the shared fees for the NAAFI deal came in at around £3m.

Deloitte now has 10 dedicated experts concentrating on buy-outs: four in corporate finance, two in tax, three or four industry experts and a pensions specialist. In addition, the firm has a team of seven concentrating on originating deals.

Mr Mike Stevens, head of management buy-out services at KPMG, paints a similar picture of expanding involvement at the high-priced end of the market and remains bullish on the prospects for the future.

"It is a fascinating area to be in at the moment, especially with the growing move towards Europe and the feeling that UK prices are too high," he says.

"Big deals will become increasingly common. In 1994, there was only one over £250m and last year there were six."

Consequently, KPMG's team of 14 dedicated individuals has streamlined its operations to match those of the clients.

"We are now organised firmly on industry group lines so we can understand the players and our chances of spotting a deal are pretty good," he says.

Lawyers are also diversifying, although there is a certain amount of unhappiness over attempts by the Big Six accountancy firms to impose their own standards.

Mr Charlie Geffen, the head of buy-outs at Ashurst Morris Crisp, says: "The buy-out houses are more innovative in winning deals, which are becoming more complex and increasingly taking place outside the UK. We are frequently asked to provide local advice on structuring and on completing cross-border deals."

And Mr Chris Hale of law firm Travers Smith Braithwaite, points to the increasing trend for the larger buy-outs to be sold through auction.

The result has been for sellers to get more favourable terms forcing buyers to protect themselves more thoroughly.

And it is here that the lawyers' role has tended to spill over into accountancy territory.

"The result has been lawyers producing full-blown due diligence reports in the same way that accountants have done for many years."

4 MANAGEMENT BUY-OUTS

ROM, maker of steel products for construction, was bought out from the Rugby Group for £21m. The syndicated equity team comprised 3i and Lloyds Development Capital

3i • by Katharine Campbell

Service tailored to segments

Near perfect pricing has made it much more difficult to secure high returns

When Mr Brian Larcomba takes the helm as 3i's new chief executive in July, he can doubtless look forward to having his ear bent by members of staff across e whole range of subjects.

One of the issues that is bound to come up is the fact thet the UK's largest source of private eqnity capital has been absent recently from the very largest buy-out transactions.

3i may still back more buy-outs by e long head than its nearest competitors. In 1996 in the UK, the group invested £214m in a total of 104 MBOs, and £90m in 59 MBIs. But it has tended not to use its vast balance sheet to play in the £100m plus market.

Hence, figures from the British Venture Cepital Association accord 3i a market share last year of 40 per cent by number of deals, but by velne, that portion fell from 20 per cent to 15 per cent. Whether Mr Larcombe – who has yet to divulge his thoughts on future strategy – will want to address that issue remains to be seen.

The gronp had been a leader, with Candover, of the larger buy-out market in the 1980s. But the experience of the fallout from the last peak of the cycle has had its effect, not least when 3i had to write off a £73m exposure to the £2.4bn Isosceles buy-in of the Gateway supermarket chain. "Yes, that did take some of the appetite eway for very large exposures," acknowledges Mr Hugh Richards, 3i's London director.

Mr Martin Gagen, joint head of UK investment, says the group has "quite consciously decided not to pursue the mega buyout across Europe; it is simply too limited a market opportunity for our brand of investment".

This is all part of a strategy to tailor the service it offers to different segments of the buy-out arena. "People think of buyouts as homogeneous, but that is not necessarily the case. What we are trying to do is deliver e tailored boutique service from the powerbase of a big balance sheet."

3i boasts "a complete dominance" in the £10m-£50m range of transaction in the UK," is active in the £50m-£100m bracket "and we are now looking above the £100m threshold on a very selective basis," he says.

In March, 3i launched a £62.5m smaller buy-out co-investmant fund, targeting deals under £10m, which it sees as e quite distinct, and particularly regional, business. The vendor is normally an individual rather than a public company and hence a different style of negotiation is needed.

"There are all sorts of other issues, such as the pride of the individual and his concern that his company will be in good hands." Mr Gagen reckons. Even this market, however, is becoming increasingly competitive, with the technology of the

Hugh Richards: not unduly concerned by price trends

large deals – enctions and a different style of legal and banking documentation – creeping in.

In the market for transactions above £10m, where 3i has already raised two co-investment funds, the two-pronged approach is to make use of the group's extensive regional network to belp find opportunities before advisers call an auction, as well as to keep 3i well "in" with the merchant banks and potential vendors.

Witb the increese in buy-in activity generally, the group has been seeking to differentiate further its services in that area too. One of its obvious strengtbs is its raft of personal connections ecross British industry, and Mr Patrick Dunne, who runs the independent directors' and management buy-in programmes, says that be has been endeavouring to foster closer cootact between those sets of individuals.

"MBI managers need to be more sophisticated in their approaches to vendors these days," he notes. "We've been coaching them and we will generally introduce them early on to three part-time chairmen wbo are very well-connected in their sector."

The MBI programme is also slowly internationalising. Foreign managers who have run UK subsidiaries for continental European parent companies, for instance, and whose next move is back to bead office, are increasingly approaching 3i looking for buy-out opportunities, according to Dunne.

Differentiation aside, 3i's competitors maintain its market share has recently come at the price of bidding over the odds for its investments. In addition, they claim they sometimes fail to secure mandates becanse 3i, together with the clearing banks' venture capital arms, offer companies' management more ettractive terms and conditions.

Mr Gagen, naturally, does not concede tbe point. "People don't like it when 3i becomes more competitive. We bave become a specialist in buyouts and that is hurting others."

Mr Richards adds that 3i has done a broad brusb study of average entry price earnings multiples of its buy-outs over £10m, which produces e figure of 10.3 for 1996 compared with 11.4 in 1995. "I would not say there was any underlying trend that would cause us to be overly concerned."

Still, 3i admits that, like the rest, it is having to work much harder et finding and making a success of investments. "You have to buy well and then grow the business," says Mr Gagen. "What's changed is that yon have got an almost perfect market in pricing terms. The idaa of simply unwinding the financial structure to make a return on a deal is not enough."

An example of its more aggressive stance was the £30m institutional purchase of five disparate businesses being sold by William Baird, the clothing group. 3i had initially planned to buy the package and dispose of the pieces it did nbt want almost simultaneously, but, says Mr Richards, thet "got logistically very difficult. Baird did not want to know about the mechanisms of disposal, so we ended up just taking the lot".

Now there are two disposals and one "potential" buy-out to effect before the new company begins reconstituting itself as "an expert in supplying good clothing to high street chains".

However, 3i says that the deal still bears the stamp of its traditional style in so far es the incumbent management was "treated well" and that it was able to team up with an investing chairman – Mike Buswell, a former Hillsdown director – who was known to the vendor. Mr Dunne observes:"Vendors want to deal directly with the institutional backers, but want to feel comforteble that the backer has e team that will make it to the end of the process."

Meanwhile, 3i's competitors are alao watching closely as to whether the organisation's style will change with its increasing number of co-investment funds raised from outside parties. These make it sppareutly more exposed to the pressures faced by most other independent funds – either in terms of the timing of exits or in terms of the kind of returns being targeted.

Mr Richards maintains that there will be no change. "Yes, the house style is more measured with respect to exits, bnt this is the track record that we have established over a long period and that's wbat the investors have bought into. There is e hard-driving style [in other parts of the industry] which can be extremely powerful in the return sense, but that places the company under numerous obligations." The majority of entrepreneurs 3i backs are keen to make capital returns in the kind of timescale that fits with the fund, he says.

HIGH YIELD BONDS • by Samer Iskandar

Potent instrument for large deals

Bonds are seen as an increasingly important tool at the high end of the market

The emergence of a high-yield bond market in Europe has been hailed by bankers as the most significant new financing trend in years. Its advocates claim it will make a large number of buy-outs cheaper and faster to execute, and could make possible some deals that would not have taken place otherwise.

"The development of a high-yield bond market in Europe – particularly non-dollar bonds – is an important new tool for the growth of the MBO business," says Mr Alan Jones, a managing director at Morgan Stanley in London.

High-yield bonds are speculative debt securities issued by companies with credit ratings below rating agencies' "investment grade" threshold – BBB- and Baa3 from Standard & Poor's and Moody's respectively. In exchange for the higher credit risk, they reward investors with substantial interest margins over benchmark government bonds.

The European high-yield market's inception is attributed to last month's debut issue by Geberit, the Swiss sanitary firm recently acquired by Doughty Hanson, the UK venture capital company. The deal was several times oversubscribed, as was an issue by Exide, a leading manufacturer of industrial and automotive batteries.

Both were denominated in D-Marks, but appetite in the sterling sector was also tested with a £100m issue for Castle Transmission Services. The proceeds will form part of e £250m plan to finance the ecquisition by the borrower of the BBC's domestic transmission network.

Bankers expect about 10 issues this year for a total amount in the region of $1bn equivalent. Issuance could double in 1998 and the total size of the European high-yield market could reach upwards of $20bn in coming years as the sector matures.

"There is no doubt that high-yield bonds, when used correctly, are an extremely potent financing instrument," Mr Matthew Collins and Mr Malcolm Offord, from Bankers Trust's European Acquisitions Finance team, wrote recently*.

On the demand side, European investors have been on the lookout for higher yielding securities as a result of government bond yields falling to historic lows. Also the high valuations of stock exchanges have made investors wary of pouring new money into shares.

"High-yield bond investment is driven by the relative unattractiveness of other investments," says Mr Mike Stevens, UK head of MBO services at KPMG Corporate Finance.

However, he warns that bond financing could potentially have an adverse effect on acquisition prices. "Because bonds provida cheaper funds, they can increase the price bid by up to 20 per cent," he says.

European high-yield bonds have been issued with yields in the region of 4 percentage points higher than interbank rates in their home markets. This compares with a margin of 8 to 9 percentage points on mezzanine finance. Venture capital firms, which provide equity financing, require an internal rate of return of up to 30 per cent.

"[High yield bond issuance] has allowed leverage to increase to up to 70 to 80 per cent of total funding, compared with 50 to 60 per cent in traditional European senior/mezzanine structures," according to Messrs Collins and Offord at Bankers Trust.

On the supply side, the most fevourable factor is that bond issuance allows borrowers to keep total management control, whereas venture capitalists require voting rights and mezzanine providers take a large share of profits in tha form of options or warrants.

But existing players in the mezzanine and equity markets are swiftly adapting to the new environment.

"The main issue today is to increase our underwriting capacity," said Mr Rory Brooks, a managing director et Mezzanine Management, e leading mezzanine provider. "And we are working on it."

Some mezzanine providers are also gradually moving towards equity. Furthermore, mezzanine finance remains more attractive than bond issuance for deals of less than $300m.

Only six deals of that magnitude took place in Europe last year, up from three in 1995 and only one in 1994.

Bankers are also optimistic high-yield bonds will increase activity at the high end. "This market will allow large deals to be done, even some thet could not be financed before," said a senior bond syndicate official at a US bank.

"There will be peaceful co-existence between the two sectors, with high-yield bonds financing larger transactions, which were already out of reach for the mezzanine providers," said Mr John Wotowicz, an executive director at Morgan Stanley. "The market is likely to segment itself at the $75m barrier, under which liquidity constraints limit high-yield investors' interest."

* Acquisitions Monthly (European Buyouts), March 1997.

Leading debt arrangers

January 1 1990 - December 31 1996

Debt deal leader	Number of deals	Total debt £m	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]
NatWest	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]
Barclays	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]
Lloyds	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]
NM Rothschild	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]
Société Générale	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]
Chemical Bank	[illegible]	[illegible]	[illegible]

Qualification: Large UK MBOs [illegible]
Source: KPMG Corporate Finance

Leading mezzanine arrangers

January 1 1990 - December [illegible]

Mezzanine deal leader	Number of deals	Total [illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]
Intermediate Capital	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]
Legal & General [illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]
Samuel Montagu	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]
Kleinwort Benson	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]

Qualification: Large UK [illegible]
Source: KPMG Corporate Finance

Electra Fleming arranged financing of £103m for the MBO of steel castings maker William Cook, having been asked to act as a white knight during hostile Triplex Lloyd bid

MARKETS • by Christopher Price

Juniors gather strength

Success of Aim and Ofex in the UK has given a boost to counterparts across Europe

The proliferation of smaller companies' markets – and with it the increased opportunities for management buy-outs – shows little sign of slowing down.

In March came the first listings on the German junior market, the Neuer Markt, which followed news that smaller company markets in Paris, Brussels and Amsterdam were to link up with their Frankfurt counterpart.

The pan-European venture has been given impetus by the success of the Alternative Investment Market, the London Stock Exchange regulated junior market, and Ofex, a private market, both in the UK, and the slow but steady progress of Easdaq, the Brussels-based European market.

Synergia, a Belgian finance group, recently became one of the first companies to list on the new Brussels junior market. Mr Paul Van de Perre, chief financial officer, says the alternative to listing for the three-year-old company would have been to search for outside investors.

"It's hard to explain to investors who are locked in that they have to be patient. By floating, we are able to attract investors who understand our industry but will also have the flexibility to exit."

Mr Van de Perre also believes the company received a better valuation than if it had used private equity. Synergia, which had sales of BFr250m ($7.09m) last year, was valued at BFr450m on flotation.

All the new markets have made a deliberate pitch for MBOs and start-up companies. None require established trading records, although new companies joining the UK junior markets, Aim and Ofex, have had to make do with relatively low valuations.

Aim, established two years ago, has been the most successful of the junior markets. This was partly because of the decision by the London Stock Exchange to close down the two existing junior listing places, the 4.2 market and the Unlisted Securities Market. The move gave Aim a critical mass of more than 100 companies at a stroke.

That figure has since grown to 270 companies worth £6bn ($9.7bn). More than £1bn has been raised. Ofex, a private unregulated market, has attracted about 100 companies.

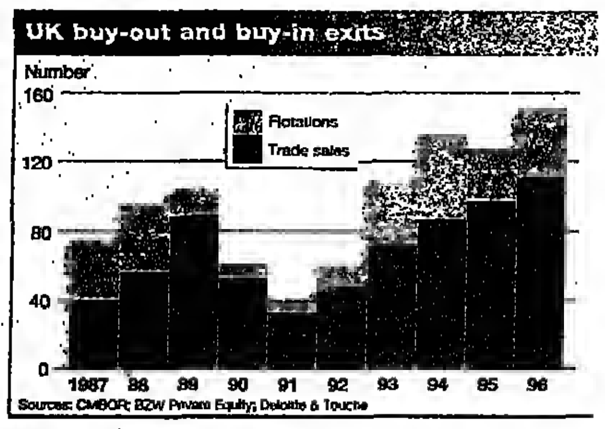
The costs of listing have been an important issue for many potential entrants. Aim was set up as a low-cost market for companies seeking development capital. All companies must have an adviser chosen from a stock exchange nominated list and initially "nomads" were offering listing services for as little as £50,000.

However, with a small number of nomads coming in for criticism from investors for not scrutinising their client companies enough before listing, there has been a move towards greater due diligence – and with it higher costs. Average joining costs have moved towards £100,000 before any fees for fund raising. Nomads point out that the cost of moving to the full list would be relatively small after paying for the due diligence of joining Aim.

It was the issue of cost that prompted JP Jenkins, the stockbroking firm, to set up Ofex. The closure of the USM and 4.2 left a large group of companies with no means to trade their shares unless they transferred – and paid the cost – of going to Aim. Ofex offers an alternative. It charges just £2,000-a-year membership. However, it remains outside stock exchange regulations.

Mr Richard Donner, a director of Granville & Co, the corporate finance arm of the investment bank, agrees. He also suggests that the desire of owner-managers to retain control is more suited to venture capital than to flotation. "Not everyone wants the glare of publicity nor the responsibility which goes with going public," he says. "Private capital gets executives ready for becoming a public company."

In an attempt to make a listing attractive to MBOs, Granville recently floated Total Office Group, the office equipment supplier, on Aim. The agreement on the proportion of ownership between management and venture capitalists, which would normally have ended on listing, remained in place. It will end when and if the company steps up to the full list. "It is a way for both management and investors to realise the full value of the company's worth," says Mr Donner.



Sources: CMBOR; BZW Private Equity; Deloitte & Touche

VENTURE CAPITAL TRUSTS • by Roger Taylor

Tax breaks tempt backers

Trusts are designed to encourage investment in small companies

Venture Capital Trusts have raised only about £350m since they first appeared in 1995 and have invested about £50m but 40 per cent of this money has gone into management buy-outs and buy-ins.

Strict rules limit VCTs to the smallest buy-outs. They can invest only in companies with gross assets of less than £10m. But in this area, trusts have been able to play a useful role helping managers buy out small privately owned companies.

Often these are family businesses where the transfer of ownership from one generation to the next causes a problem or where the company needs access to new investment funds which the family owners cannot or do not want to supply.

VCTs were set up to encourage investment in small unquoted companies. Individuals are allowed to invest up to £100,000 in a VCT in any one tax year. Tax relief at 20 per cent is paid on the amount invested and all returns are free of capital gains and income tax.

In return for the tax breaks, investors must accept the risks of having their money put into very small companies and must hold their investment for at least five years.

It had been hoped that the tax breaks would draw billions of pounds to back small businesses.

In fact the sums raised have been modest. In their first year to April 1996, 12 trusts raised £160m. About £200m has been raised this year.

A survey by the British Venture Capital Association found that up to January 1997, the 12 initial trusts had invested around £43m in qualifying holdings. Trusts have up to three years in which to invest 70 per cent of their cash in qualifying investments.

Of the £43m invested, 60 per cent went into early stage and developing businesses.

The remainder went into small management buy-outs and buy-ins.

Mr John Simpson, a fund manager at Murray Johnstone said: "These deals are very different from large-scale buy-outs. Big buy-outs tend to be about cost cutting and cash flow. But the type of family-owned companies we help buy-out have often been starved of investment. Much of the money we put up is for new investment in the company."

> "Much of the money we put up is for new investment in the company"

He added that private owners of businesses often preferred a buy-out to a trade sale, as the business remained independent and was less likely to be rationalised into a larger company.

A worrying trend for companies hoping to benefit from VCT investment has been the recent spate of low-risk protected VCTs. These interpret the rules as broadly as possible to create the safest possible investment while still qualifying for the tax breaks. With these funds, the minimum amount of money allowable is invested in small company shares, which can be as little as a quarter of the fund. The rest is invested in gilts or loaned to small businesses through banks.

Both Noble & Company and Close Brothers have launched protected trusts despite criticism from the British Venture Capital Association which is worried that such practices could result in the Inland Revenue cracking down to the detriment of all investors.

However the vast majority of money raised is going in the right direction. The BVCA survey found that 67 companies had received funds worth on average £496,000 from VCTs.

One concern was that managers would take the easy route and invest largely in Aim listed companies, since these count as unquoted investments. But the BVCA figures show that only 15 of the 67 companies so far backed by VCTs are Aim listed.

Instead, and perhaps surprisingly, most VCTs are using the tax breaks exactly as intended and are backing a wide range of small and growing businesses, including a large number of small management buy-outs.

There are no particular advantages to the company backed in receiving support from a VCT rather than a conventional venture capital fund.

Most VCTs are run by traditional venture capital companies including Murray Johnstone, NatWest Ventures, Advent, Northern Ventures and Ivory & Sime Baronsmead.

But the tight limits on the size of companies allowed in VCTs has forced managers to look at deals of a size that in the past they might have considered too small to bother with.

In general VCT managers are keen to support MBOs as it gives them a chance to invest in small businesses which often have established trading records – less risky than investing in start-ups and early stage companies.

Managers of family businesses looking to go it alone but who worry their company is too small to interest venture capitalists would be wise to talk to one of the many VCTs.

SECONDARY BUY-OUTS • by Ian Hamilton Fazey

Limbering up for round two

Re-engineering offers an exit route avoiding the need to float too early or sell too soon

Deal takes off: Peter Brooks of Gresham Trust (left) with Paul Gibbs, managing director of Page Group

It is a sign of both maturity and competitive pressures in UK venture capital markets that a formerly little-used type of buy-out has steadily been gaining popularity in the last three years, although no one is quite sure yet what to call it.

"Serial" or "secondary" buy-outs are common terms for the same thing, but "re-engineering buy-out" is now creeping in as the most up-to-date jargon. Whichever term is used, however, the process is straightforward. Someone, or a management team, or a financial institution, or a combination thereof, buys out an existing buy-out.

Reasons for doing this vary. The original MBO team may want to retire, or breaks up, so the next generation of managers in the company takes over. The venture capital provider may be operating a closed-end fund and have to find an exit route, so a new deal results in another buy-out, this time backed by another fund.

In other cases, the original buy-out team may have failed or underperformed. A new buy-out team, possibly reinforced by other individuals buying into it, gets the chance to turn over a new leaf to try to reinvigorate the business.

Underperformance may be reflected in various ways, snch as not doing well enough to float on the stock market, or not commanding a good enough price for a sufficiently profitable trade sale.

"Secondary buy-onts certainly concentrate managers' minds on what goals the *business should* be pursuing," says Mr Ken Robbie of Nottingham University's Centre for Management Buy-out Research. "Many float or are sold quite quickly afterwards."

Other secondary buy-outs have been motivated by another reason: the management team may be performing well but may want to stay independent and not be forced into flotation or sale. Tha company's managers then have to find a financial backer who will be more prepared to live with that.

Whatever the reason, secondary buy-outs are a rapidly growing segment of the venture capital markat. According to Mr Robbie's centre, they accounted for 8.5 per cent of all exits by investors in 1994, rising through *11.4 per cent* in 1995 and 13.3 per cent last year.

"This is an increasingly common opportunity for other capital providers," Mr Robbie says. "With tighter competition in venture capi*tal markets, some fund man*agers are trying to initiate deals themselves and making direct approaches to the managers of closed-end funds, offering to take on and continne the investment."

Some form of managerial re-engineering of the company concerned is then almost inevitable so as to redefine and hone its objectives – hence the "re-engineering *buy-out*" jargon.

Gresham Trust has moved into the market with some vigour. "Managers already know how to run their business and how to deal with external shareholders, so the risk is reduced and the learning curve is flatter," says Mr Trevor Jones, Gresham's managing director. "As well as maintaining their independence, managers may also be able to increase their share of the equity."

Most venture capital houses expect to exit within three to seven years of the original investment, but Gresham says it is happy to wait much longer periods, provided management is performing well and producing dividends.

One such deal involved the *Page Group, a Sunbury-on-*Thames manufacturer of specialisad electronic and electro-mechanical equipment for the aerospace and marine markats. Gresham put in £4.5m to replace the original investors in a 1991 management buy-ont. The management team continues, but with a Gresham director on the board.

A similar deal allowed four original institutional investors from 1989 to exit from Presswork Metals, a long-established supplier of components for seat belts, airbags and air conditioning units to the antomotive industry. The management team wanted to retain the company's independence as an employer of 265 people in Newton Aycliffe, County Durham.

An *example* researched by Mr Robbie's centre involved ATS Technirent, a computer equipment rental company in Berkshire bought out by its management in 1986 and backed by 3i, CVC Capital *Partners and Kleinwort Ben*son Development Capital. By 1993, the company had developed a successful workstation rental *business* and amployed 50 people. Turnover was £8.6m compared with £2.8m in 1987 and pre-tax profits were up at £2.2m from £100,000.

When one of the investors with a closed-end fund wanted to exit, a trade sale was attempted against the managament's will, bnt prices were too *low for good* enough returns. Eventually, the *management* was told that if it could raise the finance, the original investors would consider a secondary buy-out.

Deloitte & Touche Corporate Finance did the job, negotiating an £11m deal led by BancBoston Capital Management. NatWest Ventures became shareholders and 3i retained its stake, while the company's management almost doubled its own boldings to 25.5 per cent.

Since then, ATS Technirent has expanded by acquisition, with the investors providing more venture capital to support the purchase of a leading audio-visual equipment supplier in 1995 and a PC rental company last year. Expansion required better controls, so a new group finance director was appointed in 1995.

With BancBoston bringing in knowledge of the industry through its relationship with a US client in the field, the secondary buy-out has so far shown high and profitable growth, particularly because rental is becoming increasingly established as a means of ontsourcing the ownership of rapidly developing technology.

There seems littla doubt that whatever they are called, serial, secondary or re-engineering buyouts are likely to become more important in financing corporate development and providing exits, without a company *having to float too soon or* sell too early to achieve the best prices. The market, however, still has to prove itself in the long run. "No one really knows what sort of return these secondary *buy-outs will yield,*" Mr Robbie cautions.

PROFILE **NATWEST VENTURES**

Taste for management

Mark McQuater has returned to venture capital after three years running a business

Regional buy-outs *took off* last year, with the north-west *gaining* a 13.7 per cent share of deals (by number), according to CMBOR, second only to London and the south-east which still retains 27.9 per cent. Competition is set to increase as NatWest Ventures, for one, reckons it has neglected the area.

Hence the decision to *install 36-year-old Mr Mark* McQuater to run the Manchester office from this February. "It's a heavily fished pond, but it's an area where we'd like to do better," he says.

The new boss is a *relative* rarity in the venture capital world. While most of his peers are accountants, Mr McQuater has had a spell running a fast-growing quoted company in between his two stints at NatWest Ventures.

Mr David Shaw, managing director of NatWest Ventures, says: "Mark comes back to us with a much greater understanding of the business problems that managers have. It should make him user-friendlier to management as well as helping us solve the problems we may encounter."

Mr McQuater joined NatWest Ventures first time around in 1989 – from Scottish & Newcastle, where he had been group corporate development manager – as local director to help establish the Edinburgh office. His motives were uncomplicated: "It was *quite well paid.*" He spent five years helping build up a portfolio of £30m, which according to Mr Shaw, "has made a lot of money for us".

He was tempted away from venture capital by Mr *Tim Martin, founder of JD* Wetherspoon, whom he had met when he was at Scottish & Newcastle, by dint of its acquisition of a 25 per cent stake in Wetherspoon.

Mr Martin had decided to split the role of chairman *and managing director*, and asked Mr McQuater to join in the latter role. "I acquired a taste of operational management, and steered them through a crucial phase of growth as sales grew from £46m to £100m."

He also learned *about* hard work. "Venture *capitalists think they work* hard – which they do,

Mark McQuater: returned more user friendly

during deals. But this was like doing deal after deal non-stop for three years."

Last November he quit, and Mr Martin has now *reconsolidated his two* roles. Mr McQuater says he has pledged not to talk about the reasons for his departure. "But it was not performance-related, because profits were up 61 *per cent (in the year to July* 31 1996 by comparison with the previous year)."

NatWest Ventures was soon on the phone and making him "a very good offer". Ha is now happily *back, enjoying* the variety and "the fact that in this job you are spared the day-to-day routine stuff. As a venture capitalist you get involved at the exciting point where a business changes ownership and sets off in a different direction."

One of his ambitions is to break the *pattern* whereby the largest deals naturally gravitate to the London office, he says. "We could easily handle a £100m transaction, which in a regional context is material." Last year's £88m buyout of Shearings, the coach holiday business, from Rank Group, was for instance handled jointly with London.

The sector has changed considerably in the few years he has been away, Mr McQuater believes. "It is a sign of maturity that we can push ourselves forward as an industrial buyer. We take controlling stakes, and that gives you a proprietorial feel. It is one of the reasons I decided to come back."

He will be "working very hard at origination. You've got to go out and persuade families to sell their businesses. If you want actually to pull off six deals a year you have to be covering a lot of angles and possibilities". Deals can take a long time to come to fruition, he says, citing the recent management buy-in of Tile City, a chain of discount tile shops, that was purchased for an undisclosed sum from its founder. That took nearly a year to put together.

It could be tough in the months ahead, with many *private companies having* accelerated sales ahead of the election. And what of the difficulties of attempting to increase market share at the top of the industry cycle when *high prices are being paid?*

Mr McQuater tugs at his cuffs before answering. "I don't think we regard pricing as over the top. It is not like the late 1980s when people started to lose touch with reality. A lot of the businesses we look at are leisure-type businesses which will be profitabla no matter what."

Katharine Campbell

US • by Tracy Corrigan

A paucity of targets

High prices are encouraging fund managers to look for overseas opportunities

Recently, it has seemed that everyone who is anyone in leveraged buy-outs (LBOs) – the US term for what are known as management buy-outs in the UK – has been raising money for a new fund. KKR, Donaldson, Lufkin & Jenrette, and Lehman Brothers are among those which have raised or are raising billion dollar funds in recent months.

According to Mr Stephen Galante, editor of Private Equity Analyst, $22.9bn of LBO funds was raised in 1996, up from $19.2bn in 1995 and $14.4bn in 1994.

Institutional investors have never been more willing to put money into LBO funds. With US interest rates still low and stock prices looking stretched, they are keen to allocate more funds to "alternative" asset classes, which means, in many cases, private equity funds, including LBO and venture capital funds.

"If you look back over the history of the asset class, the returns have been quite good [so] asset allocators have put more money in," says Mr Lawrence Schloss, a managing partner of DLJ Merchant Banking Partners II, which recently raised $3bn.

In fact, LBO funds as an asset class these days are "totally mainstream – any corporation or public pension fund over $1bn feels they have to be in it", said Mr Schloss.

"You will find very few significant pools of capital which have not allocated some portion of funds to alternative investments," says Mr Joseph Rice, chairman of Clayton, Dubilier & Rice, one of Wall Street's most prominent LBO partnerships. (The industry is split between private partnerships which specialise in LBOs and investment banks which have merchant banking or private equity arms as part of their much bigger businesses.)

Mr Steve Berger, head of merchant banking at Lehman Brothers, also says that larger amounts of money are coming into LBO funds, with big pension funds increasing allocations from around three per cent to seven, eight or in some cases 10 per cent.

Furthermore, a recent change in Securitiee & Exchange Commission rules allows funds to take money from very wealthy individual investors as well as institutional fund managers.

There is one slight problem: it is becoming increasingly difficult to find attractive investments. "It's clear that there is more money being raised and the funds are bigger than they were," says Mr Schloss. "It's also clear it is harder to buy businesses because prices are high [as a result of the strength of the stock market]."

However, he argues that this is not a serious problem, unless it causes fund managers to rush into overpriced or unattractive investments.

In fact, according to Mr Schloss, most are "showing restraint. They have five years to invest". All LBO funds run in cycles, which cause peaks and troughs in fund-raising efforts. Currently, there is a peak, because many managers have recently liquidated previous funds, and starting the next funds is an automatic consequence.

LBO fund managers "don't really have the ability to pick when thay raise the money – when they get to the end of the fund, it'e going out of the door", says Mr Schloss.

And, he notes, "it's a long cycle". Institutional investors may take several years to pick a manager, then it may take few years for the money to be invested, and another few years to get the money out again.

One result of the paucity of targets in the US market has been that LBO funds are venturing oversees. Mr Schloss says managers are "lured by the poteotial of lower prices in overseas markets".

"We are looking overseas," says Mr Berger of Lehman, whose funds have already invested in France, the UK and Taiwan. "Others are doing the same, partly because of the difficulty of doing deals here, but also because [institutional] investors want to diversify," he said, referring to the general desire of fund managers in the US to increase exposure in overseas markets.

Mr Rice sees the shift to overseas opportunities as a "sign of the maturity of the US market. We believe we can transport the same skills", to overseas markets though he adds that for the moment the ehift is to Europe, rather than Asia, partly because businesses and markets in Europe are more mature.

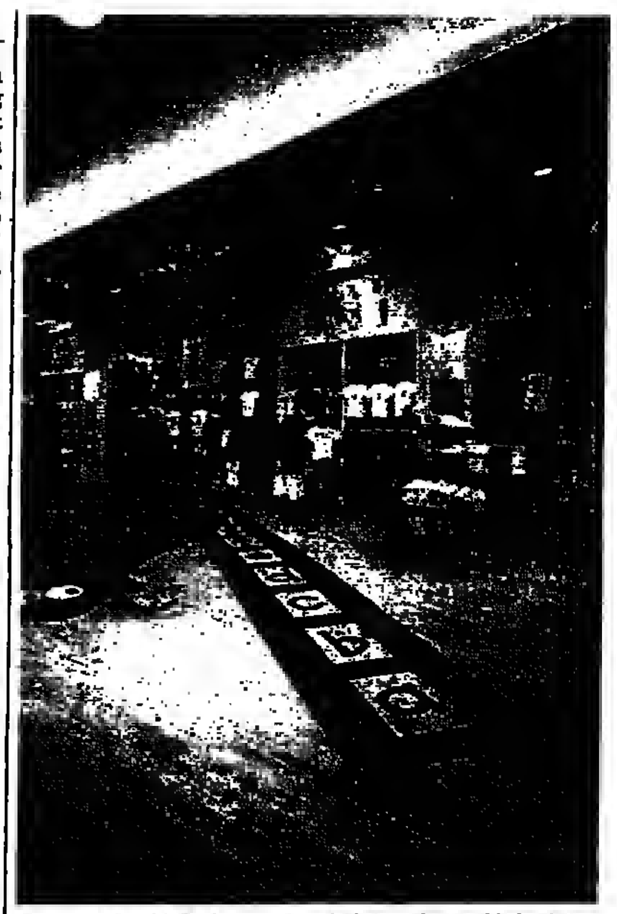
Another effect of the greater scarcity of ettractive targets is that definitions are blurring, with firms looking for privete equity investments broadly, rather than strictly defined LBOs.

"In our firm we have a number of very interesting investment opportunities [at the moment] and only one is a classic LBO deal," said Mr Rice. "Some of the things we see now are opportunities to partner with companies." For example, the firm has a $214m investment in Kinko's, a West coast based retail provider of business services.

The US LBO market has proved highly successful for its practitioners as well as for investors.

In fact, some institutional investors heve complained that the fees charged by private equity managers are too high. Last year, nine public pension funds including the influential California Public Employees Retirement System (Calpers) put out e report calling for best practices to be adopted.

Still, their dislike of pricing has so far not deterred other funds from entering the fray – Mr Galante saye that Oregon and Washington State pension funds now allocate 15 per cent of their investments to LBOs, encouraged by returns in the high teens over the past five years.



Flooring specialist Amtico, was an MBO from Courtaulds in 1995. The £53m deal was led and arranged by Electra Fleming

GERMANY • by Graham Bowley

Sleeping giant awakens

More businesses are now being offered for sale as attitudes to disposals change

The upheaval in German industry brought on by a stagnant domestic economy and intensifying foreign competition could herald more buoyant times ahead for the country's management buy-out market.

According to new figures by Initiative Europe, the private equity specialist, and the Centre for Management Buy-out Research at the University of Nottingham, the German management buy-out market was the biggest in continental Europe last year for the first time, surpassing even France, traditionally the most active.

"A lot has changed. There are signs of the German market finally opening up," said Mr Martin Halusa, managing director of Apax Partners in Germany, one of the country's leading private equity houses. ...

There are two main reasons for the change, according to Mr Peter Graf von der Groeban at Schroders & Partner in Frankfurt. One is that big companies have begun to sell their subsidiaries in order to be able to compete more effectively in their core markets, even if the subsidiaries are still profit-making.

The second reason is that small, family businessmen are becoming more prepared to cash in their companies when they reach retirement age, and perhaps less prepared to struggle through what has become a protracted downturn for the German economy.

"German corporates are disposing in a big way," said Mr Graf von der Groeben. "Big companies have built up their portfolio of businesses over the last 50 or so years. They have amassed huge groups of different businesses which are completely unrelated. But now they realise they can't be number one or two in every market they are in."

At the same time, "among family businesses, cashing in companies has become acceptable over the last couple of years. Ten years ago, to sell a company was always a sign in Germany that you were bankrupt, but that has changed," he said.

Mr David Milne, a director at CVC Capital Partners in London, agrees: "For major German corporates, the mind-set has historically been if you are selling a business there is something wrong with it." But the import of Anglo-Saxon shareholder value concepts has altered attitudes to disposals, and businesses are now being sold for portfolio reasons. There is now a steady stream of businesses being offered for sale. In time the quality of these businesses will improve."

According to Initiative Europe and the CMBOR, the management buy-out market grew to £1.15bn last year, more than double the previous year's figure. About 43 per cent of the market was accounted for by buy-outs from German parent companies, reflecting the impact of restructuring among domestic German industry. About 19 per cent were buy-outs from a parent company. About 34 per cent had a family or private business as their source.

The main players rising to the new challenge appear mainly to be British. "A large part of the capital has been raised by foreign groups which have a local presence," according to Initiative Europe and tbe CMBOR. They single out Doughty Hanson, Apax Partners, 3i, CVC Capital Partners and Advent International, as well as Legal & General Ventures and Candover.

"The big UK bouses are looking for growth opportunities as the UK is overheating. The country they have all focused on is Germany," said Mr Halusa.

There are also some important non-UK players including Alpha of France, ABN Amro and Alpinvest. From Germany, Quadriga, H&P Beteiligungsberatung and DBAG are also active.

"The problem all of us have is a lack of people with experience in Germany. There are few because the idee is so new. The ideal player in this business has an Anglo-Saxon background," said Mr Halusa.

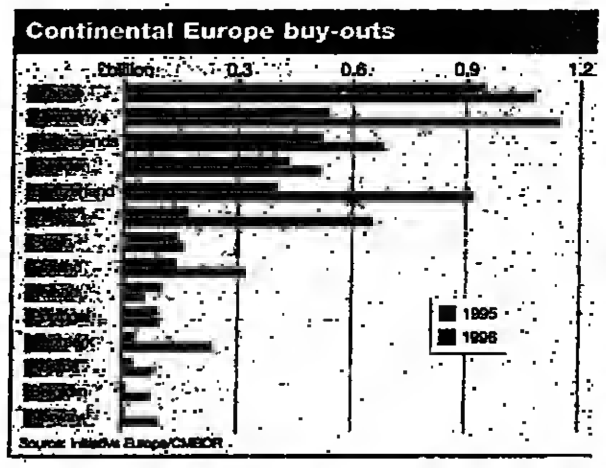
The increasing pusb by foreign equity businesses into Germany will no doubt accelerate the growth of the buy-out market, but the professionals are still keen to point out that the German market has e long way to go before it eveo begins to rival that in the UK.

Mr Halusa said: "Germany has always been considered a sleeping giant. It has buge potential for deals but, unlike in the US and UK, it has not come through yet. One reason is that there has been no well-publicised role model for managers to say, 'Hey, I could be one of them'. Another reason is that there are not enough players selling these products and not e professional intermediary market which understands these products."

Mr Graf von der Groeben said: "A lot of people come to wake this sleeping giant and find it difficult because the environment is very different from the UK and US. It takes a long time for e deal to develop. The advice to vendors is e lot less developed here. The vendors look e lot less for professional advice and therefore it takes so long because they are so insecure."

Mr Milne said: "Management culture in Germany is more committee orientated than in the UK and there is no real equivalent of the [managing director]... This can cause problems for venture capitalists who seek and need an MD who will take ownership of opportunities and issues."

Continental Europe buy-outs



Source: Initiative Europe/CMBOR

Initiative Europe/CMBOR, University of Nottingham, price £695, 340pp, tel.+441737769080

8 MANAGEMENT BUY-OUTS

SWITZERLAND • by William Hall

On a roll as lenders compete

A dramatic rise in deals has made this the third biggest European market

Doughty Hanson took watch maker Tag Heuer to the stock market last September via a SFr614m IPO

Switzerland, with a population of less than 7m, is one of Europe's smallest industrial markets. Yet in terms of management buy-outs it has become one of the hottest markets for transactions and looks like continuing to generata an abova average level of deals for some time to come.

Over the last year bankers have been jostling to lay claim to having organised the biggest MBO. Last summer, the UK's HSBC Private Equity and Zurmont Finanz, its Swiss affiliata, staked their claim after organising the SFr159m MBO of Schaffner Elektronik from Elektrowatt.

However, there have been a series of rival deals, such as SAIA-Burges Electronics, an MBO from Williams Holdings, and Komax, a leading producer of wire processing systems, which could have been contenders for the titla.

Overshadowing all these deals have been a couple of transactions organised by Doughty Hanson, tbe UK venture capital firm. Just over two years ago it bought a big staka in Tag Heuer, the Swiss watch-maker, and last September brought it to the stock market via a SFr614m initial public offering. This year, it bought out the family-controlled Geberit, a Swiss sanitary-ware group, for SFr1.8bn and with tbe belp of some innovative financing, such as a DM157m German junk bond, is sprucing Geberit up for an early stock market flotation.

The purists can debata whether the Doughty Hanson deals constitute real MBOs or whether they are institutional buy-ins.

The number of transactions in Switzerland where the management takes the initiative to buy their company and accepts the bulk of the financial risk are much smaller. Most of the transactions have been precipitated by companies that have wanted to jettison subsidiaries for strategic reasons, or by families, such as Max Koch at Komax, or tha elderly Geberit brothers, that hava wanted to reduce their boldings. Local managements have been the lucky beneficiaries.

However, there can be no dispute about the pick-up in flow of MBO-type deals in Switzerland, which is averaging nearly one per week, compared with ona per month in 1990. The Swiss Private Equity and Corporate Finance Association (Seca) reported 48 MBOs in 1996, compared with 38 the year before. The latest European Buyout Review, published by Initiative Europe/CMBOR, puts the number of Swiss deals in 1996 at 52, with an aggregate value of SFr922m. The comparable 1995 figure was 41 deals valued at SFr402m.

According to the Initiative Europe data, Switzerland is now the third biggest continental European market. Over the period 1990 to 1996 Switzerland completed SFr2.6bn in buyout deals, or 8.4 per cent of the continental European total. By contrast, in 1996, it accounted for 15 per cent, compared with Germany's 18.6 per cent share and France's 17.5 per cent share.

Mr Berndt Samsinger, who works for Price Waterhouse corporate finance and is president of Seca, says one of the reasons for the jump in the number of deals is the "very friendly" stock market environment. Interest rates in Switzerland are at their lowest level since the 1930s and the stock market is at a record high.

Not only does this provide cheap finance for MBOs but it also offers the organisers the opportunity of a swift exit via an initial public offering. There were nine IPOs launched on the Swiss market last year, compared with 11 in Germany.

The other reason for the increase in MBOs is the restructuring pressures being felt by many Swiss businesses. The results of nearly six years of recession and, until recently, an overvalued exchange rate, have taken a heavy toll on Swiss industry. Traditional Swiss companies such as Sulzer, one of the great names of Swiss engineering, and Elektrowatt, are under pressure to improva their profitability by shedding poorly performing businesses and concentrating on their strengths.

Look closely at some of the well polished presentations of the recent batch of Swiss MBOs and it is possible to detect traces of businesses that used to be headaches for the bankers. Swiss banks have lost over SFr40bn on domestic loans over the last six years and the surge in the MBO market has belped them recoup some of their losses.

It is perhaps not surprising that two of the three big Swiss banks have not been prominent players in the recent wave of Swiss MBOs, the third being SBC Warburg. The caution of the Swiss banks in taking on new levels of risk associated with MBO financing helps explain why several of the best known deals in Switzerland have been led by non-Swiss banks.

Several international financial institutions, having honed their MBO skills in the UK market, have been able to transfer their knowledge easily to the financial challengea presented by Switzerland.

Most Swiss axecutives speak English, Swiss corporate culture is very international and, by plane, Zurich is only an bour from London.

UK venture capitalists, such as Dougbty Hanson, have been abla to make significant inroads into the Swiss market without the need to establish an expensive presence in Switzerland. That said, the scramble by non-Swiss investors to get in on tha local MBO market is starting to send out a few warning signals.

Margins are under pressure and there is evidence that too much money is chasing too few quality deals.

Swiss pension funds, heavily underweight in equities, are keen to increase their returns by investing in equity-related deals. Bank Julius Baer recently estimated that the amount of money managed by Swiss institutions is growing by around SFr100bn a year.

At the same time some MBOs are being financed by increasingly innovative techniques, which could suggest that this is the only way the sponsors can finance deals for which they overpaid.

Finally, the saga of tha Tag Heuer stock market flotation is a reminder that the easy exit offered by a stock market IPO may prove a myth if MBO sponsors become too greedy. Tag Heuer, the biggest Swiss IPO in 1996, was brought to the market at SFr245 a share. Nearly eight months later its shares are still hovering around the SFr200 mark, even though the Swiss stock market bas risen by more than a third in the interim. This sort of performance is not likely to endear investors to the next big IPO that comes out of tha Doughty Hansoo stable.

FRANCE • by Andrew Jack

Where size makes a difference

Legislation is restrictive and exit strategies remain relatively difficult

A rat axtarmination company, a docking business in Le Havre, and a luxury hotel and apa complex in Vichy – modest though it might be in size, France's management buy-out market has certainly not lacked colourful examples over the past few months.

For Mr Jean-Louis de Bernardy, head of NatWest Ventures Franca, who recalls that the first MBOs were made possible in the country only by a law in 1984, business has nonetheless been better. "There was rapid growth until 1990-91, and then a melt-down with the economic crisis," he says.

Not everyone is so pessimistic. Mr Thanh Vu, head of the specialist magazine Fusions & Acquisitions, which monitors deals across France, argues that there was a considerable number of MBOs during 1996, with a growing role played by British investors.

The difference between the two views is explained by Mr Frédéric de Broglie, head of the French division of 3i, the venture capital group. Among companies valued at above FFr250m, a market on which many of his competitors have focused, there have been just a handful of deals a year.

But for smaller transactions – valned at FFr30m or more each – he estimates that there were nearer to 80 or 90 companies sold last year, providing some lucrative activity for the relatively small number of financial advisers concentrating on this end of the market.

In 1993, 3i itself made the decision to boost its involvement in MBOs, which – drawing on research conducted across the French market – it concluded offered considerable growth potential and high profits. Mr de Broglie says that the proportion of its total business in the sector has risen in the last four years from one-fifth to two-thirds.

He says that his company has typically managed to achieve a return on investment of more than 25 per cent, although he stresses that in the last few months, 3i studied and refused a number of deals, considering that the asking prices for the businesses concerned were too high.

For the larger MBO transactions, he argues that for a number of reasons, "the analysis is right, but the timing is wrong" on the profitability and volume of deals. "The market has not yet really developed," he says. "Although it began saveral years ago, the market still has the spirit of an adolescent. It is not yet adult."

> "Although it began several years ago, the market still has the spirit of an adolescent"

Vendors are reluctant to consider buy-outs because they believe a trade buyer will offer a better price; advisers frequently do not suggest them for the same reason; incumbent managements are often shy to propose them for their own businesses; and there is insufficient pressure from shareholders in parent companies to push for divestment through MBOs.

The situation is beginning to change. As Mr George Elliston, head of Dome, a Paris-based corporate finance boutique, argues, the trend away from conglomerates and towards a focus on key businesses has pushed managers to consider selling off their less atrategic subsidiaries. "I think there has been a change," he says. "Little by little, French quoted groups are becoming more sensitive to the market and are divesting non-core businesses."

No group offers a better example than Générale des Eaux, the utilitiaa, communications and construction giant with hundreds of diveraa subsidiaries. Under Mr Jean-Marie Messier, its new chairman, it has begun to launch sales – no doubt partly a function of his own background as an investment banker with Lazard Frères.

A number of challenges continue to make MBOs difficult in France, however. Mr de Bernardy says that existing legislation is more restrictive than elsewhere, limiting the way in which deals are structured – notably with no possibility to use convertible preference shares. He adds that "with a little bit of imagination" the sama effect can still be achieved.

Mr de Broglie adds that – in contrast to the UK – banks are unable to take a charge on the assets of the new company formed by the MBO, which acts as a disincentive to funders and means that "when it goes wrong in France for a bank, it goes badly wrong".

In addition, exit strategies from MBOs within France remain relatively difficult. Most have a far longer life-span than in the UK, where he says "tha stock market is more ready to accept an MBO and refinance it. In France, the market is still a bit shy".

As a result, while some MBOs have ultimately terminated with a stock markat listing, mora typically there has been a sale to trade buyers or even what Mr de Broglie calls an "MBO-squared", with a second management buy-out following the first.

FINANCIAL TIMES
COMPANIES & MARKETS
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Week 22

IN BRIEF

American Airlines seeks top route

American Airlines, the second biggest US carrier, launched a surprise attempt to grab control of one of the busiest air routes in the US – the US Airways Shuttle running between Boston, New York and Washington. Page 26

Fall in provisions lifts Bank Hapoalim
Bank Hapoalim, Israel's largest banking group, said a sharp drop in doubtful debt provisions had led to a 46 per cent surge in net profits in the first three months of 1997. Page 24

NBC in Mexican distribution deal
NBC, General Electric's broadcasting arm, has reinforced its presence in Spanish language broadcasting through a distribution deal with Mexico's Grupo Televisa for its CNBC business news service. Page 26

ING announces 21% rise in first quarter
Dutch financial services group ING Groep underlined its conservative image when it announced a 21 per cent rise in first-quarter profits but declined to make a forecast of its full-year prospects. Page 25

Donna Karan in cost-cutting drive
Donna Karan, the troubled US fashion house, is shedding staff, reducing its product range and cutting back on fashion shows as part of a rationalisation programme intended to save $4.8m this year. Page 27

Toshiba to enter European PC market
Toshiba, the Japanese electronics group and the world's leading supplier of portable personal computers, is to enter the European desktop PC market. Page 25

BAe to write-off £250m and shed jobs
British Aerospace is to write-off about £250m ($407.5m) and cease production of its Jetstream 41 regional turboprop aircraft at its factory in Prestwick, Ayrshire with the loss of almost 400 jobs. Page 29

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Chief price changes yesterday

NEW YORK ($)			
Rises			
Cdgo Bridge	21¼	+	1¾
Rohr	20	+	2
Stet	18¾	+	1½
Falls			
Accustaff	23⅞	−	1¾
First Republic	19¾	−	2¾
Grubb & Ellis	9¾	−	1⅞
LONDON (Pence)			
Rises			
[illegible]	133½	+	9
[illegible]	211	+	14½
[illegible]	74	+	5
Falls			
Abbey Natl	901½	−	25½
[illegible]	65½	−	16
[illegible]	58½	−	4
TORONTO (C$)			
Rises			
[illegible]	3.00	+	0.50
[illegible]	5.00	+	1.00
[illegible]	7.40	+	0.65
[illegible]	3.30	+	0.60
[illegible]	14.00	+	1.30
Falls			
[illegible]	11.00	−	1.20
[illegible]			
Rises			
[illegible]	398	+	35
[illegible]	1551	+	58
[illegible]	2385	+	55

Falls			
Devreaux S.A.	795	−	36
Grd Paroisse	429	−	31
Promodes CI	1480	−	115
TOKYO (Yen)			
Rises			
Daiichi Phrm	2070	+	80
[illegible] Corp	2020	+	120
Tokyo Electron	5710	+	490
Toyo Tst	810	+	25
Falls			
Nomura Sec	1440	−	50
Toyo Seikan	2280	−	110
HONG KONG (HK$)			
Rises			
HK China & Gas	13.05	+	0.29
Shaw Bros	8.20	+	0.15
Vadtronix	13	+	0.55
Falls			
Amoy Props	8.70	−	0.15
HK Electric	27.65	−	0.25
Kowloon Mtr	15	−	1.05
BANGKOK (Baht)			
Rises			
Precious Ship	55.00	+	5.00
Thai O.P.P.	27.25	+	2.25
Thai Rubber	43.00	+	3.75
Falls			
[illegible]	137.00	−	15.00
Inter Far East	23.00	−	2.50
Sub Sri Thai	22.50	−	2.50

New York & Toronto prices at 12.30. Frankfurt closed.

Beijing Enterprises value rises

Trade debut sees shares jump 222% to close at HK$40.20

By Louise Lucas in Hong Kong

Beijing Enterprises, Hong Kong's newest red chip, more than trebled in value on its trading debut yesterday.

Shares in the company, the investment arm of the Beijing municipal government, closed at HK$40.20 ($5.19), a 222 per cent jump from its issue price of HK$12.48.

Last week, there were queues of would-be investors outside banks waiting for application forms and the price rise had been anticipated in trading on the grey market.

The 15m tranche of the initial public offering was 1,275 times subscribed, tying up some HK$238.8bn or the equivalent of almost half the territory's foreign reserves. The offer to the public was increased to 51.8m shares as a result but still failed to meet demand.

In total, Beijing Enterprises raised HK$2.6bn, after triggering an over-allotment option, in an issue brought to the market by Morgan Stanley, the US investment bank, and Peregrine Investments, the pan-Asian investment bank.


Would-be investors in Beijing Enterprises argue with an executive in Hong Kong after the offering was hugely oversubscribed AP

The one-day gains in the share price reflect investor eppetite for so-called "red chips", or mainland-backed companies, in the final months of British rule. Investors have been ettracted to red chips, partly because of their links to China's economy and because of the assumption that they are better managed and more diversified than the H-shares, the 28 formerly state-owned enterprises trading on the Hong Kong stock exchange.

Red chip fever bas swept through Hong Kong since early this year, but Beijing Enterprises – boasting a motley collection of businesses from tourism rights on the Great Wall of China to the Beijing McDonald's franchise – has proved the biggest hit yet. Its success exceeds thet of Gitic Enterprises, a marble and granite construction materials company backed by the Guangdong government, whose public offering was 900 times subscribed.

The scale of demand led Hong Kong regulators this month to revise the way in which share capital is raised, but bankers say the changes will do little to quell excessive subscription.

Sponsors of the issues also come under attack over pricing because the pattern of demand suggests they could bave chalked up bigger proceeds for their clients. The price tag on Beijing Enterprises was one of the highest.

Eurotunnel appeals for investors' backing on debt plan

By Andrew Jack in Paris and Charis Gresser in London

The chairman of Eurotunnel made a final appeal to shareholders yesterday to approve a restructuring plan ahead of an extraordinary general meeting scheduled for July.

Mr Patrick Ponsolle, executive chairman, said both his board and two "mandataires" – appointed by the courts to help broker a deal with the banks – conceded the plan was not perfect but "the only possible solution for shareholders in the circumstances".

The document, which contains Eurotunnel's financial proposals, suggests that the company will return to profit by 2005 at the earliest, and could be in a position to pay a dividend in the following year. On its more optimistic scenario, the company bopes to produce a pre-tax profit of £110m in 2005 and pay £33m in dividends.

Two independent consulting firms warn in the document thet the projection is "ambitious, though possible".

The prospectus showed that as a result of trading in Eurotunnel's debt on the secondary market, the number of creditor banks has fallen from 225 to 174, potentially making it easier for Eurotunnel to win unanimous approval of the plan from its bankers.

A US fund controlled by Lazard Frères, the investment bank, has become the largest single owner of the junior debt, subject to the refinancing, with 8.7 per cent. Bankers Trust and Merrill Lynch have also become significant investors, with 4.3 per cent and 3.8 per cent respectively.

Overall, the US banks - which held just 4 per cent of the debt in July 1995 - now hold 24 per cent, whila the proportion held by French, British and Japanese banks has dropped.

The European Investment Bank coutinues to hold 4.3 per cent, while the four "agency" banks which led the Eurotunnel lending syndicate - National Westminster, Crédit Lyonnais, Banque Nationale de Paris and Midland Bank - remain significant owners with between 2.8 per cent and 3.1 per cent each.

Lex, Page 22

Repsol faces row over pay scheme for directors

By Tom Burns in Madrid

Repsol, the energy conglomerate that pioneered privatisations in Spain in 1989, is now likely to spark off a "fat cat" controversy over inflated director pay packets that could total some Pta74.6m ($519,281) a year for each of its 16 board members.

Scarcely a month after Repsol was fully privatised when the state sold its remaining 10 per cent equity stake, the board has unveiled a remuneration scheme that will enable it to share a maximum 1.5 per cent of the Repsol's parent company's net profits.

On the basis of the Pta79.6bn net income that the Repsol parent reported in 1996, the remuneration would total Pta1.1bn, or Pta74.6m for each director if the maximum payout is adopted by the board and equally shared out among its members. Last year Repsol's directors, who then totalled 15, paid themselves e total Pta206m or an average of Pta13.7m each.

The new scheme, which will be put to shareholders at the group's annual general meeting next week, has caused serious concern among senior members of the Spaniab administration. Officials fear a pnblic outcry that could rebound on the government's privatisation programme.

The annual meeting will also be asked to approve four new directors, co-opted by the existing board, to replace those who represented the state's equity in the group.

"Telephone directory salaries discredited privatisations in Thatcher's England and we had hoped to avoid them," a senior official said yesterday. The CNMV, Spain's stock market regulator, is expected to request full details of Repsol's remuneration scheme.

The scheme has stolen a march on a corporate governance report, modelled on the UK's Cadbury report, that is due to be issued towards the end of this year. The code of good conduct, which has been actively encouraged by the CNMV, will focus on the importance of outside directors on company boards so as to represent the interests of all shareholders and will recommend moderate salaries for board members in order to ensure their independence.

The market regulator is also concerned about the possibile conflicts of interest in domestic corporations, such as Repsol, that have big core shareholders well represented on their boards.

Air France returns to black despite fuel costs and strikes

By David Owen in Paris

Air France has returned to the black for the first time since 1989, in spite of an "explosion" in fuel costs and the impact of strikes which cut profits by FFr250m ($43.55m).

Mr Patrice Durand, vice-president, finance, said the improvement at the stete-controlled carrier, whose hopes of early privatisation may be dashed if voters elect a Socialist government on Sunday, was primarily attributable to a strong advance in turnover for the year to March 31 from FFr39.4bn to FFr42.7bn.

Tha airline, which had run up losses of more than FFr14bn in the previous four years, reported net profits of FFr210.6m for the year, against a FFr2.87bn loss in the corresponding period a year ago.

The latest figure included an exceptional gain of FFr82m from the sale of aircraft and other items. The 1995-96 result took into account provisions of FFr2bn for a voluntary severance scheme and other labour measures. Net profits for the entire Air France group, including its tourism and information ectivities, reached FFr394m compared with a 1995-96 loss of FFr2.26bn.

Neither of these figures included the results of Air France Europe, the carrier's domestic partner with which it is in the process of merging in a controversial move that has sparked considerable employee unrest. This arm had another difficult year, reporting a net loss of FFr488m, against a loss of FFr661.4m for the 15 months to March 1996.

The loss would have been significantly worse but for inclusion of a FFr266m exceptional gain, again linked to aircraft sales. The company described the latest period as "a year of transition" marked by severe competition in the first half of the year. Turnover reached FFr11.28bn, against FFr13.6bn in the 15 months to March 1996.

Passenger traffic at Air France was up 13.3 per cent year-on-year, while the carrier's load fector reeched a record 75.8 per cent, a 3 percentage point gain from 1995-96. Most of the growth in passenger traffic came from connecting flights linked to the group's more effective use of its Peris hub. One less favourable consequence of this was that the average ticket price edged down.

Mr Durand said the company's fuel costs surged by FFr1.2bn, or 33 per cent, from the levels of e year earlier, of which FFr900m resulted from higher prices and the rest from increased consumption.

Yesterday's figures came against e background of mixed success among Air France's European rivals.

Falkland isles company listing causes unease

By Edward Luce and Stephen Fidler

The Falkland Islands' largest private company, FIG, is to be separately listed on the London stock exchange in a move which has unsettled the British territory's 2,200 inhabitants.

Under the flotation, shareholders in Anglo United, the Falkland Island Group's heavily indebted parent company, will receive 25 per cent of the shares in FIG while Anglo's creditors will take the remaining 75 per cent stake.

This has sparked fears that Argentine companies could purchase a large part of the shares after FIG is floated later this year.

Falklanders would balk at the prospect of Argentine control of their largest private company, given Argentina'e continued claim of sovereignty in the wake of the failed 1982 invasion.

Mr Mike Summers, an island councillor, said: "There are grounds for concern, but we bave to think further about the implications as we get more details."

Apart from questions of ownership, the company was the second largest employer on the islands, after the government, and the move to plc status suggested extra costs previously borne by Anglo United, he said.

FIG – formerly the Falkland Islands Company – had a turnover of about £14m in 1996. It once owned 48 per cent of the land area of the islands, but sold most of its remaining holdings in 1991.

It controls an estimated 80 per cent of the territory's retail sales, is the agent for the biggest selling vehicle, Land Rover, owner of the Darwin Shipping Line and currently operates the port in Stanley, which comes up for government tender later this year.

Mr John Gainham, managing director of Anglo United, which is to be delisted after the FIG flotation, yesterday said it would be impossible for the company to monitor who owned the shares after the company was floated.

"Once FIG is e public limited company we will have no control over who the shareholders are," said Mr Gainham, who is to be chairman of FIG.

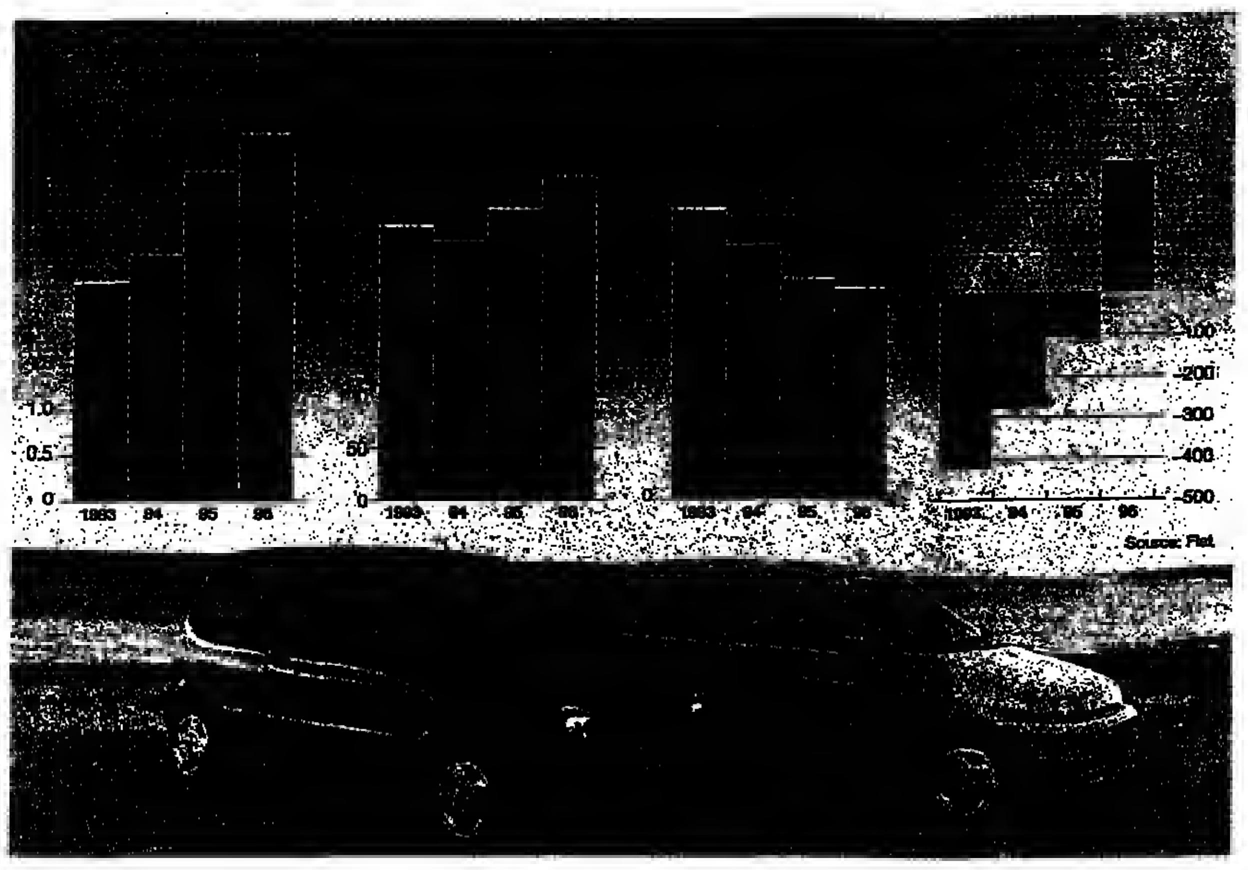
Anglo United's decision to hive off its Falkland Island interests into a separately listed company follows Anglo's sharp fall into debt in the early 1990s.

As part of yesterdey's restructuring plan Anglo will sell its fuel businesses – Coalite Smokeless Fuels and Coalite Chemicals – to Thomas Potts, a UK holding company, for £24.3m. Coalite was purchased by Anglo for £500m in 1989 in a highly-leveraged hostile takeover.

FIG, which is expected to have a market capitalisation of up to £10m, will inherit debts of just £2m. Its operating profits in the year to end-March were £1.02m compared with £887,000 in the previous year. Anglo's six main creditors, led by the Hong Kong and Shanghai Banking Corp, have yet to decide how to restructure the £178m debt which remains on Anglo's books.

Fiat plays to its strengths in Poland

The Italian group's FSM unit dominates the local market, helped by its leadership in small cars



Combining Poland's pitted roads with Italy's reckless drivers sounds like a recipe for disaster. But since Fiat, Italy's leading car company, took over FSM, Poland's second-biggest carmaker, the journey has picked up speed without, so far, encountering too many bumps.

Poland, with South America, is one of the fastest growing parts of Fiat's empire. Demand for cars has soared with the economic liberalisation that followed the collapse of communism. Growth, boosted recently by improved access to consumer credit, has fuelled a bonanza.

Car sales in Poland surged from 250,000 units in 1994 to 373,000 last year. Mr Massimo Gentilini, the new boss of Fiat Auto Poland, forecasts this will rise to between 430,000 and 450,000 this year. "We've got a real and proper explosion," be says.

The sharp rise in demand helps to explain the speed of Fiat's success in Poland, in spite of heavy investment in FSM to update its plants for the production of new models.

The Polish operation turned its first profit last year, with earnings of zloty 311m ($97m), after a zloty 427m loss in 1993 – the first full year of operation.

Fiat'a results have been based on market dominance. Two of every five cars sold in Poland last year were from Fiat Auto Poland. That was well ahead of FSO, bought last year by Daewoo of Sonth Korea, and Opel, the German subsidiary of General Motors, which came a distant third.

Fiat success in Poland has not been merely domestic. The country is the sole world source for its Cinquecento minicar. Fiat's total production in Poland – dominated by the Cinquecento – climbed from 278,000 in 1995 to 307,000 last year. More than half the Polisb-built cars were exported, lifting turnover from zloty 3.6bn in 1995 to zloty 4bn.

Although Fiat's involvement in the Polish motor industry started in 1921 as a shareholder in the country's first motor manufacturer, it was only in 1992 that it gained direct involvement by buying 90 per cent of FSM.

Since then, Fiat has invested $1bn on modernising the company to build new cars and engines. lts range now inclndes the Cinquecento, the veteran 126 – an even smaller car sold only in Poland – and the Uno.

The company also builds other Fiats from kits exported from Italy. Output last year included 205,000 Cinquecentos, 60,000 126s and 36,000 Unos.

Mr Gentilini says a further $800m is now being spent to raise capacity and launcb two new models. The first, unofficially called the Seicento, will succeed the Cinquecento next year. The second, the Siena, is the four-door version of Fiat's A178 "world car", which went into production in Brazil in 1996. The Polish-built Siena, to be launched in June, will be followed by a station wagon version towards year-end.

But while the two new cars ahould consolidate Fiat's local dominance, their arrival coincides with new challenges.

The surging domestic market has sharpened the competition. Within the coming months, Daewoo will introduce the first of three new Korean-designed models to replace FSO's dated range. In September 1998, production will start at GM's new, 75,000 unit a year Polish plant. Output of Skoda models is also scheduled to rise at Volkswagen's plant in Poznan. And in late 1995 Ford started assembling cars at Plonsk.

Competition from imports is also growing. Although foreign-made cars suffer a 25 per cent tariff disadvantage over locally-huilt vehicles, the handicap will disappear by 2002 as Poland prepares to join the European Union, making the market much tougher.

Conditions will also grow more difficult abroad. Until now, drivers of minicars have been in effect limited to the Cinquecento or Renault's Twingo. Although differing in price and specification, the two are often seen as direct rivals.

However, the choice is widening. Last October, Ford launched the Ka. That has been followed this year by the Arosa, from VW's Seat subsidiary. VW will follow with at least one, and possibly two, VW-badged versions of the vehicle. Meanwhile, Opel is believed to be working on a slimmed-down Corsa. And next year will see the debut of the Smart, a tiny two-seater built by Mercedes-Benz and SMH, the Swiss watches group.

Mr Gentilini points out that not all the new vehicles are direct competitors to the Cinquecento, and the greater choice may stimulate the minicar market. But he recognises the challenges ahead both domestically and in Europe.

In Poland, Fiat's strategy is based on maintaining its leadership in small cars – always a company forte – and expanding into larger vehicles. While some of the bigger cars, like the mid-sized Marea, are already being assembled from kits, the real impact will come from the Siena, according to Mr Gentilini. "We're convinced it's the right product", be says.

As for greater competition in the European minicar sector, his answer is simple. "I don't doubt there will be greater competition. The question is, will there be problems for us? I don't think so".

His confidence is based on an insider's knowledge of the Cinquecento's successor. While the current car has won plaudits from the motoring press, Mr Gentilini is confident about the new version: "Its successor will be even better", he says.

Haig Simonian

Fall in provisions lifts Bank Hapoalim 46%

By Avi Machlis in Jerusalem

Bank Hapoalim, Israel's largest banking group, yesterday said a sharp drop in doubtful debt provisions had led to a 46 per cent surge in net profits in the first three months of 1997.

Net profits jumped from $64m in the first quarter last year to $94m in the same period this year.

Net return on equity was up from 11.9 per cent to 16.6 per cent.

Provisions for donbtful debts dropped 39 per cent, from $73m last year to $44m this time.

Analysts attrihuted the low provisions to ths end of the debt crisis in ths agricultural sector, which forced the bank to raise provisions in recent years.

"Thess results were way over our expectations," said Ms Debra Kodish, banking analyst at Zannex Securities in Tel Aviv. "If they can keep provisions at this level the bank will be abie to exceed net profit projections of about Shk930m [$275m] for the full year."

The bank said income from financing activities, before doubtful debt provisions, climbed 10 per cent from $247m to $272m.

Financing income was boosted by rising bond prices and an increase in off-balance sheet activities. Subsidiaries and affiliated companies nearly doubled their contributions to net operating profits, from $19.3m in the first quarter last year to $37.8m in the first quarter of 1997.

Bank Hapoalim's shares rose 2.75 per cent on ths Tel Aviv Stock Exchange yesterday, from Shk7.47 to Shk7.68.

The Israeli government, which owns the bank, recently issued a tender to sell a stake of between 25 per cent and 69 per cent in Bank Hapoalim. The tender is expected to be completed in August.

Israel's finance ministry recently said it hoped to raise as much as Shk3bn from the sale of the bank's equity this year and next.

The government has set a target of Shk4bn in revenues from selling state-owned companies and banks in 1997.

EUROPEAN NEWS DIGEST

Swedbank seeks Handlowy stake

Swedbank, the Swedish commercial bank, yesterday confirmed it was seeking to buy up to 5 per cent of Bank Handlowy, the Polish bank which is to be privatised next month. Swedbank is one of three core international investors, led by J.P. Morgan, the US investment bank, that are aiming to take at least 24 per cent of BH's equity in a deal which could be worth as much as $300m.

The third member is Zurich Insurance, the Swiss financial group, which confirmed its interest on Wednesday. It also said it would be signing a letter of intent with BH to establish a joint non-life and life insurance operation in Poland.

Swedbank, which is merging with Föreningsbanken, a smaller rival, to form Sweden's second-largest bank, said it regarded the Nordic and Baltic region as its home market. It bought a 12.5 per cent last year in Hoiupank, Estonia's second-largest bank, and said its strategy was to form alliances which "may or may not be combined with shareholdings" in the partner.

Of the three core investors, J.P. Morgan is taking between 10 and 15 per cent of BH, Zurich Insurance between 5 and 10 per cent and Swedbank up to 5 per cent.

Greg McIvor, Stockholm and Christopher Bobinski, Warsaw

Kirch takes over Hundert,6

Mr Thomas Kirch, son of the German media mogul Mr Leo Kirch, has taken fall control of the Berlin commercial radio station Hundert,6 in which he previously held a 40 per cent stake. The purchase of the remaining 60 per cent, which is subject to regulatory approval, is part of an expansion of Mr Thomas Kirch's business activities in Berlin. A radio station official said there would be a relaunch in the summer with greater emphasis on news and current affairs. Hundert,6 was the first commercial radio station to be launched in Berlin, Germany's most competitive radio market. *Frederick Stüdemann, Berlin*

Preussag ahead at DM248m

Preussag, the German industrial conglomerate, yesterday announced a 12.2 per cent rise in profits to DM248m ($155m) in the first half of the 1996-97 financial year, which it attributed to strong performances by the group'a trading and engineering divisions. Turnover rose 2.1 per cent to DM11.6bn. The company said it had benefited from economic recovery in industrialised countries and from the strengthening of the US dollar and sterling in relation to the D-Mark. Orders rose 6.1 per cent to DM13.5bn.

The biggest rise in sales came from Preussag's building engineering division, where turnover increased 39.1 per cent to DM1.52bn. Turnover in the trading and logistics division rose 11.4 per cent to DM5.78bn. As part of its strategy of selected expansion, Preussag last month bought Chaffoteaux et Maury, a French company which makes electric boilers and gas heaters.

Frederick Stüdemann

Veag warns of falling sales

Veag, the east German regional utility, yesterday warned of continuing losses in 1997 because of declining demand, the effect of discounts granted to industrial customers, and switching by customers to privately-owned power stations. In 1996 the company, which is majority-owned by the west German utilities RWE, Bayernwerk and PreussenElektra, incurred losses of DM180m ($113m), compared with a DM140m deficit in 1995.

Turnover in eastern Germany fell 4 per cent to DM5.6bn. However, Veag was able to make up this shortfall by selling electricity outside the region, resulting in an overall 3 per cent rise in group sales. Sales this year are forecast to drop by at least 6 per cent.

Frederick Stüdemann

Toshiba to expand PC range in Europe

By Paul Taylor in London

Toshiba, the Japanese electronics group which is the world's leading supplier of portable personal computers, is to enter the European desktop PC market.

Toshiba Information Systems will introduce 12 computer products, including the Equium range of business desktop computers and the handbook-sized Libretto portable, into Europe, beginning with the UK.

The move by Toshiba into the corporate desktop PC market reflects its determination to capitalise on its strength in the notebook portable PC market. It aims to become one of the top information technology groups in the world over the next few years.

"The successful PC vendors of the future will have to deliver product innovations in features and design across every market sector, as well as competing on price/performance," said Mr Alan Thompson, director of Toshiba's PC division in the UK. "Toshiba already designs and manufacturers servers for the Japanese market and is now present in both the business and consumer desktops in Japan and the US."

The move also reflects the growing interest of Japanese and other Asian PC manufacturers in the European and North American desktop markets.

Over the past year, Fujitsu has taken over the PC business of ICL, the UK group, while NEC has taken control of the Packard-Bell PC business and Samsung has assumed control of AST, of the US.

Mitsubishi, which owns the Apricot PC business in the UK, and Sony have also been promoting their PCs.

This renewed interest in markets outside Asia reflects the economics of the PC business and the desire of large electronic component manufacturers, like Toshiba, to secure markets for their products and help smooth out the cyclical nature of commodity component markets.

Toshiba has been highly successful with its range of Intel PCs, based on Intel microprocessors and Microsoft Windows, software in the Japanese market, which until a few years ago was dominated by proprietary systems.

The Japanese group launched its Infinia range of consumer PCs in the US last September, followed by the Equium business machines in March.

However, in Europe the group has decided to focus initially on the business segment, which is seen as more sophisticated than the consumer sector.

Mr Howard Seabrook, Toshiba's UK desktop business manager, said: "The Equium range bears the stamp of innovation and design quality that is ingrained in our portable products. For the business desktop user this is a guarantee that new technologies will appear on their systems at the earliest opportunity."

Toshiba has built so-called "intelligent manageability" features into the Equium range to make it easier and less costly to install, configure and manage corporate PCs.

EUROPEAN NEWS DIGEST

Bezeq hit by high financing costs

Bezeq, Israel's state-controlled telecommunications company, yesterday reported a 9.3 per cent fall in net income for the first quarter. But operating profits soared 36 per cent, ahead of the introduction of competition in the international telephone services this weekend.

Net income fell from Shk155.5m to Shk141.1m ($43m), while earnings per share slipped from Shk0.21 to Shk0.19. Analysts said the decline was because of high financing expenses rather than a loss in earnings. Expenses rose from Shk58.4m to Shk131.5m, including debt repayment to banks and to the government. The state, which holds a 76 per cent stake in Bezeq, intends to sell 24 per cent later this year through an international and domestic offering.

Operating profits surged from Shk269.9m to Shk367.9m, while consolidated revenues from telecoms services rose 7 per cent from Shk2.02bn to Shk2.16bn. "The revenues have held up well and operating profits are very good," said Mr Keith Phillips, analyst at Société Générale. "We will see what happens when the effects of competition kick in during the summer."

Deregulation of the international telephone network is expected to lead to a 70 per cent drop in the price of calls, which is likely to affect Bezeq's profitability. Net profits last year were Shk659m on revenues of Shk8.2bn, with international services accounting for nearly one-third of sales.

Judy Dempsey, Jerusalem

Dollar debt pulls Saga down

Saga Petroleum, the Norwegian oil explorer, has been hit by a paper loss of about NKr1bn ($142.85m) on its US dollar debt. The financial charge was disclosed in results published yesterday for the first four months of the year. It caused Saga's net income for the period to fall from NKr405m to NKr109m.

But operating income rose 60 per cent in NKr1.38bn because of 53 per cent growth in production and a 7 per cent rise in oil prices in kroner terms. Pre-tax income was NKr303m compared with NKr894m. The volume increase was larger than expected.

Much of the rise was attributed to the acquisition last year of Santa Fe exploration company from the Kuwait Petroleum Corporation. UK operations contributed NKr816m of the NKr3.4bn of operating revenues.

Robert Corzine, London

Gedeon Richter raises $202m

The domestic offering of a 1.1 per cent stake in Hungarian pharmaceuticals company Gedeon Richter closed yesterday after moderate demand for what, in Hungarian terms, is expensive stock at Ft14,160 ($78) a share. The domestic offer was of 200,000 shares, with priority given in retail investors buying a maximum 50 shares.

As an incentive, small investors could pay half the sale price in cash and the remainder interest free within one year. In spite of the incentives, the local offering failed to ignite investor enthusiasm.

Together with last week's international offering of 2.6m shares – a 14 per cent stake – the sale raised some $202m. The international offer was 4.5 times oversubscribed, which analysts believe helped drive up the share price on the Budapest stock exchange to above Ft15,000 this week. "All the growth has been discounted in the price. I don't see it outperforming the market in the short term until news of an expected acquisition in eastern Europe takes place," said Mr Tamas Szalai, of Concorde Securities.

Kester Eddy, Budapest

Gucci revenues increase 31.5%

By Alice Rawsthorn

Gucci, the Italian luxury goods group, mustered a 31.5 per cent increase in revenues to $254.3m in the three months to April 30, in spite of a slowdown in Japan and sluggish sales of its spring fashion collection.

Mr Domenico de Sole, president, said Gucci had "exceeded expectations" in the first quarter. Even so, the company's shares fell by Fl 4.10 to Fl 135.80 on yesterday's announcement, reflecting concern about the continuing impact of the weak yen on demand from Japanese consumers.

Gucci's spring fashion collection received a lacklustre response from the press when it was unveiled in Milan last October, after several seasons of rave reviews since Mr Tom Ford's appointment as chief designer.

Ready-to-wear sales, which had shown strong growth in previous seasons, suffered a slight decline from $17.46m to $17.04m during the first quarter.

Fashion represents a relatively small part of Gucci's turnover, but is extremely important in terms of generating publicity and defining the brand's image. Mr Ford's latest collection, the autumn range presented in March, was acclaimed by the press.

The only other products in falter in the first quarter were ties and scarves, which suffered a 25 per cent reduction in revenue to $8.87m. Gucci said the decline was seasonal and expressed confidence that sales would recover in the second half.

Leathergoods showed strong growth of 42 per cent from $111.85m to $158.85m, and shoe revenues rose 30 per cent from $35.11m to $45.74m. Other products, including the new homewares range, saw revenue increase by 40 per cent to $13.07m.

Mr de Sole said Gucci was pressing ahead with a store opening and refurbishment programme.

The first of the new flagship Gucci superstores is scheduled to open on London's Sloane Street in early autumn.

DK cuts costs, Page 27

Amer sees return to black in 1998

By Greg McIvor in Stockholm

Amer, the struggling Finnish sporting goods group which owns the US-based Wilson brand, yesterday reported narrowed losses in the first four months. But it said it would not reach break-even this year.

Mr Roger Talermo, the chief executive brought in a year ago to turn Amer around, said aggressive cost cutting would yield a significant improvement this year. The group would return to profit in 1998, he said.

The company had previously suggested it might break even this year, but Mr Talermo said it wanted to be "a little more prudent". But he added this did not mean any slackening in Amer's recovery.

Pre-tax losses narrowed from FM118m to FM52m ($10m), or from FM4.90 a share to FM2.20. Amer's shares gained FM4 to close at FM99.

"Our restructuring and cost-cutting is exactly on schedule after the first four months," Mr Talermo said, adding that all units would perform better than last year.

Amer's operations include Wilson sporting goods – its sponsored stars include Steffi Graf, who this week is defending her French Open title. It also owns Atomic skis and Oxygen snowboards and in-line roller skates.

Steffi Graf, the top seeded player currently defending her French Open title, is sponsored by Amer's Wilson unit AP

Losses have been heaviest at the Wilson golf arm, particularly in the US. Mr Talermo said this was the only unit which would stay in the red this year, but it would return in profit in 1998.

Amer has restructured the division heavily, shedding about one-third of the workforce and seeking to shift its focus from mass-market equipment to higher-margin premium products.

Mr Talermo said a series of new products had been launched or were in the pipeline, but these would not have a full effect on earnings until next year.

The loss-making MacGregor Golf brand was sold in February to Masters International, of the UK, for about FM90m. The gain was booked in the 1996 accounts.

Operating losses decreased from FM76m to FM12m, although turnover slipped from FM1.6bn to FM1.48bn. The company forecast a full-year figure of FM4.5bn.

Berendsen shares jump 12% on demerger plan

By Hilary Barnes in Copenhagen

Shares in Sophus Berendsen, the Danish group which owns 36 per cent of the UK-listed company Rentokil, jumped more than 12 per cent yesterday after it announced a demerger of its businesses.

It told shareholders it planned to break the group into two parts. A new investment company called Ratin will hold 90 per cent of Sophus Berendsen's Rentokil stake, and the group's remaining Rentokil holding with its laundry and distribution operations will be placed in another company retaining the Sophus Berendsen name.

The announcement sent the group's share price up from DKr890 at Wednesday's close to DKr1,050 in after-market trading last night.

Sophus Berendsen has suffered from a hefty discount on its shares. Its year-end market valuation was DKr20.02bn ($3.1bn), though the market value of its shares in Rentokil alone was DKr22.6bn.

By removing the discount, the demerger should reward shareholders by equalising the price of the Rentokil shares held through Berendsen with the market price listed on the London Stock Exchange, the group said.

The demerger will take place with effect from January 1998, assuming shareholder approval is secured this year.

The demerger follows Rentokil's acquisition last year of rival services company BET, which diluted Berendsen's holding in Rentokil from 51 per cent to 36 per cent.

Berendsen last year promised not to reduce its shareholding in Rentokil from its present level for five years. This pledge was not affected by the demerger, said Mr Robert Koch-Nielsen, Berendsen chairman.

Berendsen's operational interests include a textile services and distribution companies for industrial components. Their combined turnover was about DKr6.7bn in 1996, but yielded a meagre profit of DKr146m. The group's share of Rentokil's profits was DKr1.14bn.

Banking behind advance at ING

ING Groep, the Dutch financial services group, yesterday underlined its conservative image when it announced a 21 per cent increase in first-quarter profits but declined to make a forecast of its full-year prospects, Reuter reports from Amsterdam.

Although the result met market expectations – and would have surpassed them but for further provisions for future expenses – shares in the group slipped on profit-taking.

Net profit in the first three months of 1997 grew from Fl 736m a year earlier to Fl 891m ($467m), continuing the momentum of 1996 when earnings rose 25 per cent.

"After the excellent results for 1996, the result for the first three months of 1997 showed continued strong growth," ING said.

As in 1996, the group's international banking operations were the main profit driver, increasing earnings by 26 per cent against a 15 per cent rise by the insurance activities.

ING said business volumes rose considerably, with life premium income growing 26 per cent, non-life premiums 12 per cent and banking income 23 per cent. It identified the Netherlands, North America and Australia as sources of strong profit growth from life and non-life insurance.

The group said strong growth in the volume of loans outweighed a narrowing of interest margins to produce a 17.9 per cent increase in net interest income.

Bullish financial markets contributed to the 40 per cent boost in trading income and an increase in assets under management, and ING Barings and Baring Asset Management figured prominently as commission income surged 37 per cent.

BAM and part of ING Barings were formerly owned by Barings, the British merchant bank which ING rescued in 1995 after Barings almost collapsed from derivatives losses.

ING also set aside another Fl 200m for future expenses such as the introduction of the euro single currency, the millennium, restructuring and information technology. This charge, most of which relates to banking, is in addition to Fl 530m set aside for future expenses in 1996.

American Airlines in surprise bid

By Richard Tomkins in New York

American Airlines, the second-biggest US carrier, yesterday launched a surprise attempt to grab control of one of the busiest air routes in the US – the US Airways Shuttle running between Boston, New York and Washington.

It said it had struck a deal with the banks that own 53 per cent of the shuttle. But US Airways, which owns the other 47 per cent, indicated that it would exercise its right to buy out the banks' stake rather than lose the route to American.

Wall Street analysts said that if US Airways decided not to exercise its option, a bid battla for the shuttle could break out between American Airlines and other carriers such as United Airlines and Northwest Airlines. The route could fetch up to $500m, said Mr Raymond Neidl, an analyst at Furman Selz.

The US Airways Shuttla serves the densely populated East Coast corridor in competition with the Delta Shuttle, owned by Delta Air Lines, and Amtrak's Metroliner rail service, currently undergoing an upgrade.

The shuttle used to be owned by Mr Donald Trump, who bought it for $360m from Eastern Air Lines in 1989 and renamed it the Trump Shuttle. The banks, led by Citibank, took control when Mr Trump ran into financial difficultias and atopped paying interest on the debt.

In 1992 the banks signed a deal with US Airways – then USAir – under which the airline would operate the route. At the end of five years, US Airways would have the option to buy the banks' controlling stake in Shuttle Inc, the shuttle's newly established parent.

Under the agreement, US Airways has the right to buy the banks' stake at e fair market value to be agreed by both parties. If it declines, and the banks receive another offer, US Airways has the right to buy at the same price offered by the bidder.

American declined to say how much it had offered the banks, or why it wanted to buy the route. Furman Selz's Mr Neidl said: "American wants it because it's a semi-monopoly, high-yielding operation and produces very strong cash flow. There are not many domestic routes left like that in the US. In fact, this is the only one."

US Airways said it had exclusive contract rights to buy the shuttle and was "working under our agreement with the banks that own the shuttle to determine how we will proceed".

Battered PepsiCo licks its wounds

US drinks group is rethinking its strategy in markets dominated by Coca-Cola

PepsiCo's decision to close down its Pepsi-Cola operations in South Africa marks a humiliating retreat for the world's second-biggest soft drinks company – but it is unlikely to be the last.

Battered by the competition from Coca-Cola, its bigger and more successful rival, PepsiCo is carrying out a painful examination of its international markets to determine whether Pepsi-Cola has e viable future in countries where Coca-Cola is the dominant player.

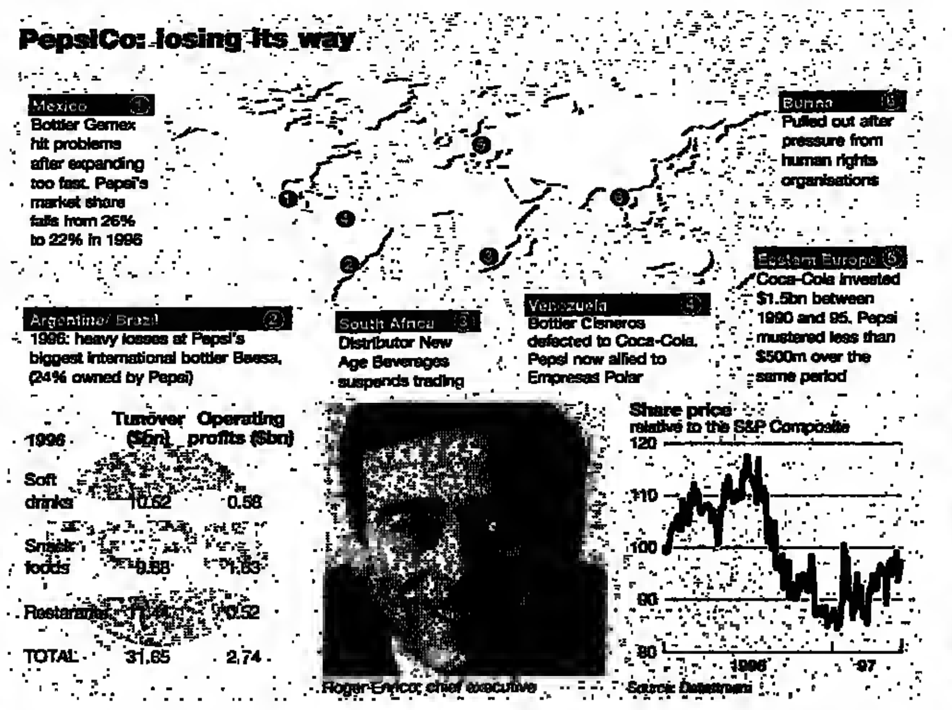
"We are moving ahead, and we are fully committed to aggressively developing our global business," Pepsi-Cola said yesterday. "But in markets where the business proposition is not sustainable, we have to make the difficult decision to move on, and that is what happened in South Africa."

Until recently, Pepsi-Cola had been determined to vie with Coca-Cola for world domination. It ploughed money into what many saw as a quixotic attempt to beat Coca-Cola in some of its strongest territories.

But last year it became evident that the plan had gone awry. Pepsi-Cola's biggest international bottler, Baesa of Argentina, ran into financial difficulties; the company's Venezuelan bottler defected to Coca-Cola; Pepsi-Cola International's losses began to climb; and Mr Christopher Sinclair, head of the soft drink business, abruptly departed.

Last September, PepsiCo announced that it would take more than $500m in charges to put the ailing Pepsi-Cola International back on track. It also announced a drastic change in strategy: from now on it would make the best of life in second place, concentrating on markets where it could prosper alongside Coca-Cola rather than trying to defeat it.

PepsiCo's decision to pull out of South Africa, announced last Friday, was the first evidence of this new strategy. Pepsi-Cola's position was hopeless: it had less than 5 per cent of the market compared with 81 per cent for Coca-Cola, according to Beverage Digest, a US newsletter; and its revenues were insufficient to justify the cost of its investment.



Roger Enrico, chief executive

The cost of closing down the South African operation was already included in the $500m in charges taken in last year's second half. Analysts surmise that tbose charges also provided for further closures in the weeks or months ahead, possibly in Latin America. However, PepsiCo refuses to be drawn on where they will fall.

So is Pepsi-Cola doomed to oblivion? "Far from it," says Mr John Sicher, editor and publisher of Beverage Digest. "There will be more markets like South Africa, where Pepsi-Cola may not compete as aggressively at least for now, but I think in other markets, like India, China, eastern Europe and the Middle East, they will be a major factor."

Mr Roy Burry, an analyst at Oppenheimer & Co, says: "They are basically abandoning or shrinking back in certain markets and using their resources and their position in those markets where they have a chance: where they hava the economies of scale and market share to stand toe-to-toe with Coca-Cola."

Some indication that the strategy was taking effect came in this year's first quarter, when PepsiCo produced better-than-expected results from its soft drinks business and indicated that it was on track to cut operating losses on the international side from $846m in 1996 to about $50m this year.

Meanwhile, Pepsi-Cola is fizzing satisfactorily in its biggest market, the US. Although Coca-Cola is number one with a 43 per cent share of the soft drinks market, Pepsi-Cola commands e robust 31 per cent share.

Moreover, new opportunities are opening up to Pepsi-Cola following its parent company's decision to spin off its Pizza Hut, Taco Bell and KFC restaurant division.

This may look like bad news for Pepsi-Cola, because the restaurants will no longer be obliged to serve Pepsi-Cola's soft drinks in preference to Coca-Cola's.

But, as Mr Michael Branca, an analyst at Lehman Brothers, points out, restaurant chains that spurned Pepsi-Cola because of its links with the rival Pizza Hut, Taco Bell and KFC will now feel free to consider it as a supplier.

"The spin-off will create much greater opportunities for Pepsi-Cola to penetrate previously unattainabla accounts," Mr Branca says.

Richard Tomkins

NBC signs deal with Televisa

By Christopher Parkes in Los Angeles

NBC, General Electric's broadcasting arm, has reinforced its presence in Spanish language broadcasting through a distribution deal with Mexico's Grupo Televisa for its CNBC business news service.

Televisa, Mexico's biggest media group, said yesterday it would transmit CNBC programming on its Conexion Financieria business channal, available throughout Latin America and Spain.

The US group plans to set up studios and office space in Televisa premises. The new service will start early next month.

The link is the second collaboration between the two companies in the past few days. It follows an agreement last week under which CNBC and MSNBC, NBC's joint news venture with the Microsoft software group, will be carried on the Sky Mexico satellite television service.

Sky Mexico is e part of an international Spanish-language satellite venture involving News Corporation, Televisa and others.

Although Latin American television markets, especially satellite, are relatively underdeveloped, US companies' involvement was encouraged by last year's satellite TV pact between the US and Mexico.

This in effect opened the frontiers between the two neighbours, allowing reciprocal access for broadcasters from both sides.

Several US companies bave establisbed firm connections witb Mexican groups as a means of establishing a footbold in the promising Latin American market while reaching the fast-growing Spanisb-speaking US population in regions stretching from Florida to California.

Sky Mexico's main cross-border rival is Galaxy Latin America, which combines the forces of DirecTV, the leading US satellite provider, and Mexico's Multivision.

AMERICAS NEWS DIGEST

US equity funds attract $15.74bn

US equity mutual funds attracted a net $15.74bn in new cash last month, higher than originally estimated, the Investment Company Institute announced yesterday. The figures confirm that inflows from small investors are at high levels by historical standards, although below the record pace set last year. Total inflows for the first four months of this year were $73.73bn, compared with $98.60bn in the first four months of 1996.

Last year's record levels of new mutual fund investment had a strong impact on confidence among market dealers, although technical analysts dispute whether the flows significantly moved stock prices, as they were counter-balanced to an extent by sales of individual equities and institutional funds.

The industry now manages total equity assets of $1,879bn, up from $1,473.7bn. When other assets, including bonds and cash, are included, the industry manages $3,729bn, an increase of more than $800bn over the past 12 months.

Bond fund flows remain relatively low by historical standards, as they have been since the bear market in bonds of 1994. Inflows last month were $786.1bn, reversing the $2.01bn outflow in March. For the first four months of the year, bond funds took in $4.63bn, barely half the $8.49bn they netted in the equivalent period last year.

John Authers, New York

Australian buy restricts TD

Toronto-Dominion Bank's second-quarter earnings climbed 9 per cent, but were held back by the cost of acquiring Pont Securities, an Australian discount broker.

Net earnings rose to C$240m (US$173m), or 78 cents a share, in the three months to April 30, from C$220m, or 70 cents, a year earlier. The latest figure includes the C$29m after-tax cost of the Pont purchase, which consolidated TD's position as one of the world's biggest discount brokerages.

Return on equity edged up to 15.2 per cent from 15.1 per cent. Assets grew to C$153.2bn on April 30 from C$117.4bn a year earlier.

Loan loss provisions fell slightly to C$40m. The impaired loans portfolio shrank to C$367m from C$514m a year earlier.

Mr Charles Baillie, chief executive, predicted e stronger performance for the rest of 1997 due to accelerating economic activity in Canada. The outlook for Canada's economy "is better today than at any other time this decade," he said.

Bernard Simon, Toronto

Poor result hits Novell shares

Shares of Novell, the US network software group, fell 4 per cent yesterday after it reported worse-than-expected second-quarter results and a restructuring that includes 1,000 job cuts. The stock was off $⅜ to $7¾ on Nasdaq volume of 6.4m, compared with average daily volume of 3.9m.

The company reported after the market close on Wednesday a loss of 4 cents a share, compared with a loss of 15 cents in the year-ago period. Analysts had expected net income of 3 cents a share.

AP-Dow Jones, New York

CORRECTION

Compass Holdings

The figure reported yesterday for the debt to be assumed by Compass Holdings in its acquisition of Daka International was incorrect due to an agency error. The correct figure was £67.6m.

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales

Provisional Price for 30.05.1997 | Final Prices for Trading 02.05.1997

1/2 hour period ending	Pool purchase price £/MWh	Pool purchase price £/MWh	Pool selling price £/MWh	TS use of system price £/MWh
0030	14.72	14.47	14.89	1.13
0100	11.20	13.08	14.01	1.13
0130	11.20	13.08	14.01	1.13

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Donna Karan plans $4.8m in cost cuts

By Alice Rawsthorn

Donna Karan, the troubled US fashion house, is shedding staff, reducing its product range and cutting back on fashion shows as part of a rationalisation programme intended to save $4.8m this year.

The cost-cutting package, which involves the loss of 53 jobs and abandoning the New York runway shows for Karan's spring 1998 men's collections, follows the announcement earlier this month of a collapse in first-quarter profits.

Donna Karan, one of the best known US fashion designers whose clients include Demi Moore and Barbra Streisand, was hit by production problems and rising costs during the first quarter. Net income fell from a pro forma $6.2m a year earlier to $806,000.

The profits collapse was the latest in a series of problems to cloud the company since its flotation on the New York stock market last summer.

Karan's shares rose from their issue price of $24 to a peak of $28 on the first day of trading. They have since fallen sharply, and slipped 25 cents, to $11.50, after yesterday's announcement.

The rationalisation plan is intended to restore profits growth from the second quarter onwards. The cost will be expressed as a $1.6m pre-tax restructuring charge, together with other pre-tax charges totalling $3.6m, including severance payments.

Karan hopes that the 53 redundancies and a recruitment freeze will reduce overheads by a total of $2m this year.

The company is also restructuring operations by folding the loss-making Donna Karan New York Accessories unit into the home furnishings division, and merging its creative services and retail development units.

In addition to cancelling the runway shows for the spring 1998 men's collections of the Donna Karan New York and DKNY brands, it has abandoned plans to show the Donna Karan New York women's range in Milan next October. The collection will instead be shown in New York, which is expected to be less expensive.

Further economies will be sought by making the Donna Karan New York women's collection available to retailers four times a year, rather than six. Other targets for cost-cutting include advertising, sampling and executive bonuses.

Karan said it would continue to develop its beauty business, for which it hopes to negotiate a sale or licensing venture. The DKNY Jeans range will also be unaffected by the rationalisation and exempt from the hiring freeze.

Donna Karan: shedding 53 jobs after recent profits collapse

Tough Texan sets sights on AT&T

If asked last week where the future of the $200bn US telecommunications industry would be shaped, few would have guessed San Antonio in Southern Texas.

San Antonio, however, is home to SBC Communications, the country's biggest local telephone company, which has established one of the best track records of any of the so-called Baby Bells: at 15 per cent, its after-tax profit margin last year surpassed all rivals.

It takes a big leap of the imagination, however, to believe that San Antonio's biggest company is about to play the pivotal role in the restructuring of the US telecoms industry. And that, in turn, has touched off a storm of rumours and gossip about what lies behind the talk this week of a merger between SBC and AT&T, a combination that would rank as the mother of all corporate mergers and would, in all probability, force a realignment of the entire sector.

Adding particular zest to the potential combination has been the widely-touted view that it could amount to a reverse takeover of AT&T by an SBC management team led by the redoubtable Mr Edward Whitacre.

A Texas native renowned for his toughness rather than his talking, Mr Whitacre has a way of making an impact: his move to sell three corporate jets soon after taking on the top job at SBC in 1990, for example.

Such an anecdote raises the prospect of the Texan cutting a more drastic swathe through the bureaucracy of the US's biggest telecoms company than that promised by Mr John Walter, the outsider recently brought in as heir apparent to AT&T's chairman, Mr Robert Allen.

However, most rival telephone companies and industry analysts give the deal very little chance of actually being completed.

On the face of it, Mr Whitacre and his management team might make a reasonable fist of running AT&T, a company which is still trying to recover from the twin traumas of last year's unexpected erosion in its market share in long-distance calling and the departure of a swathe of top executives.

Where AT&T's success with acquisitions has been patchy, SBC's has been almost positive. Ten years ago, while Mr Whitacre was chief financial officer, it paid more than $1bn to buy its way into the cellular telephone business, then spent another $1bn in the early 1990s for a 10 per cent of Telmex, the Mexican carrier.

The first turned out to be the foundation for one of the country's biggest cellular networks, while the second has proved a sound investment, more than doubling in value.

Capping both was SBC's purchase of PacTel, whose Californian base made it one of the most attractive of the Baby Bells. Mr Whitacre took advantage of his own company's superior stock market rating, and the uncertainty that followed last year's Telecoms Act, to buy the company cheaply.

Making the connection: Edward Whitacre (left) of SBC, and Philip Quigley, PacTel chairman and chief executive

Also to the SBC boss's credit has been his success in cross-selling services to his local customers – a skill that is in great demand now that the previously compartmentalised segments of the US telecoms market are beginning to merge. SBC, for instance, leads the pack in selling Caller ID – one of the most profitable add-on services for local companies – to 37 per cent of its subscribers, and in selling cellular service to 10.8 per cent of its local customers.

But, according to Mr Anna-Maria Kovacs, an analyst at Janney Montgomery Scott in Boston, "What [Mr Whitacre] has yet to prove is that he can run a company in a very competitive market".

However, all this will be academic if, as most observers expect, the talks about a merger lead nowhere. Uniting the US's two biggest telecoms companies would stretch the patience of anti-trust regulators at the best of times.

Adding extra political heat is the concern being expressed in Congress at the failure of last year's Act to instill greater competition: reuniting two parts of the old national Bell system, broken up in 1984, would not be seen as a way of furthering competition.

Such considerations have prompted questions about whether Mr Whitacre's talks with AT&T amount in large part to a tactical manoeuvre.

While other telephone companies have targeted small parts of the $100bn local calling market, only AT&T has announced plans to seize a large share of the industry nationally. What better way to neutralise that threat than tie the company up in negotiations that could keep AT&T from trying to compete in SBC's core markets for the next two years or more?

That is certainly the concern of local consumer advocates. "If AT&T is out of the way, there won't be a lot of companies that are able to compete in a big way in the local markets," says Ms Janee Briesmeister, senior policy adviser at the Consumers Union in Austin.

Ms Kovacs adds, of the prospect that AT&T will devote huge resources and time to pursuing a merger: "This is not a marketplace you want to sit around in for two years tied up in knots." For Mr Whitacre, if a deal with AT&T proves impossible, that may prove to be a worthwhile second prize.

Richard Waters

ANA names chief and revamps board

By Michiyo Nakamoto in Tokyo

All Nippon Airways, Japan's second largest airline which has been rocked by an internal power struggle, named a new president for the second time this month and said that five of its top board members would resign their posts.

ANA named Mr Kichisaburo Nomura, currently senior managing director, as its new president-elect, after Mr Kenzo Yoshikawa, who had been nominated, declined the post.

Meanwhile, five of the company's board members will leave the board. They include Mr Tokuji Wakasa, honorary chairman; Mr Takaya Sugiura, chairman; Mr Seiji Fukatsu, president; and two executive vice-presidents.

The latest development at ANA, which has been criticised by the Japanese business community and government officials for the recent public display of power politics, represents a final victory for Mr Fukatsu, the reformist outgoing president. He decided to resign after a clash with Mr Wakasa over personnel matters.

Mr Fukatsu's resignation triggered an outburst of criticism against Mr Wakasa and Mr Sugiura, both of whom joined ANA from the Ministry of Transport.

Mr Wakasa's continuing authority at ANA – after he was charged in the Lockheed bribery scandal, in which the then prime minister was arrested – was seen as evidence of the continuing influence wielded by bureaucrats and their old-boy networks over private companies.

Transport ministry officials, unhappy about the reputation the situation was giving them, were openly critical of the two.

The new president, Mr Nomura, was known to be close to Mr Fukatsu and has asked the outgoing president to remain as an adviser to the company.

"Mr Fukatsu has come out of it positioning himself as a shadow *samurai*," commented one industry official.

ANA officials will hope that the saga, which has badly damaged its public image, is now over, as the company announced a rise in sales and profits in the year just ended.

An increase in passengers helped sales advance 5 per cent to Y887.5bn, compared with Y845.9bn, and recurring profits climbed 3 per cent from Y16.8bn to Y17.3bn.

Net profits rose 30 per cent from Y3bn to Y3.9bn.

ANA suffered a 34 per cent decline in operating profits, mainly as a result of higher fuel costs.

A rise in oil prices as well as the stronger dollar led to a 20 per cent rise in ANA's fuel costs last year to Y124bn.

Meanwhile, the company saw a fall in yield as a result of new zone fares which led to the introduction of a wide variety of discounts.

ANA said it expected fuel costs to rise again this year by about Y12bn.

The company plans to invest heavily in aircraft this year, which will lead to a moderate rise in recurring profits and flat net profits on higher revenues.

It forecasts sales of Y932.5bn, recurring profits of Y17.5bn and net profits of Y3.9bn.

Kichisaburo Nomura: named ANA president after the initial nominee declined the post AP

Debt level sets off car alarm

Analysts fear motor unit's losses could drag down Ssangyong

In a year that has seen several big South Korean corporate bankruptcies, analysts are speculating about the fate of Ssangyong, the nation's sixth biggest conglomerate, or chaebol.

Mounting losses and debts at Ssangyong Motor, its car division, are raising alarm bells. An ambitious expansion of production capacity and the development of new models has left the company with estimated debts of Won3,200bn ($2.2bn), 15 times its equity.

Interest payments of nearly Won1bn a day resulted in a record net loss of Won229bn in 1996, its fifth consecutive year of deficits.

"This is big enough to sink the whole ship, the entire armada of Ssangyong companies," says one analyst. The group's 25 subsidiaries include cement, oil refining, financial services and trading, with total sales of Won19,500bn last year.

Ssangyong dismisses such fears as exaggerated. "The problem is only one company in the group. The other flagship companies are very healthy," says Mr Milton Kim, head of Ssangyong Investment & Securities.

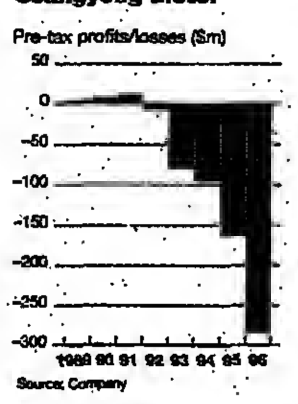
Unlike other large chaebol, Ssangyong dominates only one industry – cement, which reported net earnings of only Won2bn last year. The group's most profitable business is Ssangyong Oil, the country's third largest oil refiner, with earnings of Won124bn in 1996.

Just five years ago, Ssangyong was the second most profitable and second least indebted of the top 10 chaebol. But last year, the group suffered a total combined net loss of Won98bn because of the car division, against a profit of Won23.7bn in 1995. Group debts, which climbed to Won12,700bn, were four times its equity, although this ratio is about average for Korea's highly-leveraged industrial groups.

Worries about stagnation in the cement and oil markets prompted Ssangyong to enter vehicle production in 1986 with its acquisition of Dong Ah Motor, a small carmaker. Initially, it focused on four-wheel-drive and commercial vehicles, but it faced tough competition and produced slim profits.

The group gambled that a 1992 technological alliance with Mercedes-Benz, which included the German carmaker taking a 5 per cent stake in Ssangyong Motor, would rescue the struggling division. It produced a new sports utility vehicle, the Musso, and decided to enter the crowded domestic passenger car market with a luxury saloon, the Chairman, scheduled to be introduced this autumn.

Although sales jumped by 39 per cent to Won1,370bn last year, the increase does not appear large enough to justify the heavy capital investments.



The financial pressure has forced the group to restructure. "The problem is that we are not making enough money. But we are planning to cut costs and improve productivity," Mr Kim says.

Its car workers have agreed to freeze wages; property assets will be sold; and subsidiaries will be reduced by four to 21 units to pare administrative costs.

Ssangyong has also offered to sell 49 per cent of the car division to foreign investors. It has had discussions with Mercedes-Benz, General Motors of the US, and several south-east Asian conglomerates. But analysts predict it will have difficulty selling the minority stake because of the carmaker's heavy debts. However, Ssangyong hopes GM will provide $300m in new capital in return for using the company's distribution network.

Ssangyong may yet be forced to sell the entire car division. One possible buyer is Samsung, another Korean conglomerate. But Samsung officials insist Ssangyong's debt burden is too large.

"Ssangyong, like other chaebol with financial problems, is trying to sell poor assets that no one wants. Instead, it should be divesting some of its crown jewels, such as its cement and oil businesses, and use the funds so that the car company can survive," says one Samsung official.

Many analysts are worried that Ssangyong Motor is vulnerable to a credit crunch. But most believe the government will intervene to prevent its collapse in a presidential election year.

"It would be too big a hit to the fragile Korean economy," says Mr Richard Samuelson, of SBC Warburg Securities in Seoul. "If the government is supporting the rescue of smaller chaebol, it certainly won't let Ssangyong go down."

John Burton and Peter Montagnon

MAS surges to record despite higher fuel costs

By James Kynge in Kuala Lumpur

Malaysia Airlines (MAS), the national flag-carrier, announced a 39.1 per cent increase in full-year pre-tax profit to a record M$349.4m (US$139m), despite rising fuel costs and stiff international competition.

Mr Tajudin Ramli, chairman, said new routes had lifted capacity, while the contribution to revenue from international routes – rather than domestic routes, which tend to be loss-making – rose from about 70 per cent last year to 80 per cent.

Fuel costs rose by an average 11 US cents a gallon last year.

Group turnover climbed 13.5 per cent, from M$5.713bn to M$6.485bn in the year to March 31, while operating profit rose 39.5 per cent, from M$250.3m to M$349.3m. Net profit was M$334m against M$233m.

Group earnings per share were 43.8 cents, compared with 33.3 cents last year.

Mr Tajudin said there had been some cost cutting, but did not detail the savings.

Analysts were puzzled as to where the surge in profits had come from, even after the capacity increases and what Mr Tajudin described as "some" increase in yields. Mr Tajudin said the growth had stemmed from mainstream airline operations and not from extraordinary items or subsidiaries.

The company derived M$43.8m last year from the sale of two Boeing 737-400 aircraft.

The overall load factor fell 2.0 percentage points, to 60.3 per cent, with passenger load factors dropping 0.3 points, to 69.6 per cent. The cargo load factor fell five points, to 58 per cent.

Other airlines in the region, such as Singapore Airlines, have recently posted declines in annual operating profits.

MAS has proposed a rights issue of 770m shares at M$2.30 each, expected in October or November. Before yesterday's announcement, analysts were concerned that the issue could dilute earnings per share to levels which might deter some shareholders.

Mr Tajudin said the airline was looking for alliances but would be unlikely to allow foreigners to take equity stakes, because the 30 per cent limit on foreign shareholders in the company had been reached.

ASIA-PACIFIC NEWS DIGEST

Bandai appoints new president

Bandai, the Japanese toymaker, will appoint Mr Takashi Mogi as president to replace Mr Makoto Yamashina, who will step down to take responsibility for the collapse of a planned merger with Sega, the video and arcade games maker.

Mr Yamashina, the son of Bandai's founder, had come under pressure to resign after an employee revolt against the merger led to its cancellation. He had been the most ardent proponent of the deal, but could not convince Bandai employees of the benefits of being absorbed into Sega. He will become chairman but the board has yet to decide if he should represent the company.

The incoming president is currently head of Bandai Visual, a video software subsidiary.

Michiyo Nakamoto, Tokyo

Hitachi hit by chip price fall

The sharp fall in semiconductor memory prices put pressure on profits at Hitachi, one of Japan's large integrated electronics manufacturers, in spite of a rise in sales: Net sales rose 5 per cent to Y8,523.1bn ($73.8bn) as the group enjoyed firm demand for mainframe computers, a large power systems sale to a nuclear power plant in Japan, solid sales of CD-related products and a recovery at its home appliances division. However, the fall in memory chip prices hurt profits. Group pre-tax profits fell 24 per cent to Y263.3bn, and net income fell 38 per cent to Y88.3bn.

The home appliances division returned to profitability for the first time in six years, as Hitachi saw buoyant demand for its air conditioners and refrigerators ahead of the increase in Japan's consumption tax.

Hitachi forecast a rise in group sales this year to Y8,620bn. Profits should improve to Y310bn.

Michiyo Nakamoto

Sharp decline at SAIL

Profits at Steel Authority of India (SAIL) were more than halved last year as the country's largest producer of steel battled against sagging demand and price falls. Revenues fell 2.6 per cent to Rs147.4bn ($4.1bn) and pre-tax profits slid 54 per cent to Rs6.02bn. The figures were in line with expectations.

Kunal Bose, Calcutta

Mitsubishi Motors slides 70%

Mitsubishi Motors suffered a fall in annual group profits in spite of record sales, as a poor performance in Japan and problems at its US arm depressed the group's overall performance. Sales rose 3.8 per cent to Y3,672.1bn ($31.8bn), but profits fell 70 per cent to Y9.5bn. Net profits fell 9 per cent to Y11.6bn.

In the domestic market, MMC suffered from a poor product mix which left sales 4 per cent down in value terms. Meanwhile, the weak yen helped export sales but the sales unit at its US operations ran up losses of $780m. Mitsubishi made a capital injection into the US sales company. As a result, the company took an extraordinary loss of Y43.2bn which depressed net profits.

Michiyo Nakamoto

Indian bank advances 20%

Corporation Bank, one of India's best managed banks, lifted net profits 19.5 per cent to Rs1.25bn ($35m) last year, thanks to strict asset liability management, good treasury operation and cost-effective mobilisation of funds. The bank, which made a provision of Rs350m for non-performing assets, has a non-performing asset ratio of 3.63 per cent, one of the lowest in the industry. The average yield on loans was 15.3 per cent and on investments, 12.8 per cent. Earnings per share rose 63 per cent to Rs15.26. The bank plans to pay an annual dividend of Rs3 a share.

Kunal Bose

Acer plans $102m GDR issue

The shareholders of Acer, the Taiwanese computer group, have approved the issue of $102m of Global Depositary Receipts. Proceeds will be used as working capital and funds for expansion in overseas subsidiaries. Acer plans to expand its capacity for notebook personal computers in Mexico and the US, and for computer mainboards in Mexico.

AP-DJ, Taipei

COMPANIES AND FINANCE: UK

BAe shuts down Jetstream production

By Bernard Gray and James Buxton

British Aerospace is to write off about £250m ($407.5m) and cease making Jetstream 41 regional turbo-prop aircraft at its factory in Prestwick, Ayrsbire, with the loss of almost 400 jobs.

The move marks the end of the production of civil airliners in Scotland, and caps years of losses in its regional aircraft business for BAe.

BAe said it would try to move other aircraft manufacturing work into Prestwick, and it is finalising plans to produce parts of its Nimrod maritime patrol aircraft at the Scottisb site. Mr Donald Dewar, Scottish secretary, said be regretted BAe's decision. He would be working with the aircraft-maker to do everything possible to ensure opportunities for investment and employment were created at Prestwick.

The blow is particularly serious for South Ayrshire, where Prestwick is located. Enterprise Ayrshire, tha official development body, saw BAe's aerospace plant as the anchor for industrial development in South Ayrshire.

Closure of the line is likely to save BAe more than £30m a year, and will remove the worst-performing part of its civil aircraft business. BAe's production of wings for Airbus is profitable, and its regional jets business is breaking even.

The company has been warning for some time that the turbo-prop operation was under threat. Sir Richard Evans, the chief executive, told employees recently that the company was losing £1m on every Jetstream 41 it made.

Problems with the regional aircraft business led BAe to the point of collapse in 1992, with £1bn written off to rationalise its jet business then, and £250m against turbo-prop operations in 1994.

In addition to the latest £250m write-off BAe will receive a tax credit of about £80m, taking its total value to £330m. Much of the write-off relates to an expected fall in the value of BAa's second-hand fleet of turbo-prop airliners, which it owns and leases to airlines, and guarantees it has given to existing operators of the aircraft.

BAe shares rose 26p to £12.51.

Utilities show growth in profit and pay-outs

Leyla Boulton looks at Utd Utilities, South West Water and Mid Kent

Brendan Corr

Ken Harvey, chairman of South West Water

United Utilities, the water, electricity, and gas group, yesterday reported a 14 per cent rise in pre-tax profit before exceptionals to £444m ($723.7m) and an 11 per cent "real" increase in the dividend to 37.2p.

Mr Brian Staples, cbief executive, said he hoped tbe results for the year to Marcb 31 would demonstrate to financial markets that tbe company had delivered the dividend increases and cost savings it had promised to achieve.

He said tbe returns achieved on Norweb, the regional electricity company, were "superb" and the company was on track to achieving cumulative savings of close to £500m by 2000.

United also announced a £83m provision for a related contract in Bangkok, Thailand. But Mr Staples said the deal was an anomaly because it involved construction, a non-core area.

South West Water reported a 22 per cent increase in pre-tax profits to £132.6m and a 20 per cent dividend rise to 36.7p for the year to March.

Profits were boosted by a £19.2m gain from the disposal of peripheral activities and a 69 per cent increase in profits of its three non-regulated businesses to £8.6m.

Mr Ken Hill, finance director, said the company had spent £6m on bankers' and lawyers' fees to defend itself from competing bids by Severn Trent and Wessex Water.

Mid Kent Holdings, the water company which survived an attempted joint takeover by France's Générale des Eaux and Saur, reported a 12 per cent increase in full-year pre-tax profits to £13.8m.

Profits before exceptional items – including £2.4m spent defending itself against the takeover attempt – rose 22 per cent to £15.4m in the year to March 31.

Partly to console sharebolders for the Monopolies and Mergers Commission decision in January to block the bid, the company increased its dividend 25 per cent to 30p via an 18p final. Earnings per share edged ahead to 59.6p (58.7p).

The company also announced plans to seek permission to buy back 10 per cent of its shares as part of a possible move to maximise shareholder value.

Mid Kent is negotiating to sell some of its extra water to neighbouring water companies Folkestone and Dover and Sonth East, whose French parents engineered the takeover attempt.

ScotAm policyholders in line for £1,400 bonus

By George Graham, Banking Correspondent

Scottish Amicable policyholders sbould receive bonuses averaging £1,400 ($2,282) a bead in October if they approve Prudential Assurance's £1.6bn bid for the mutual life assurance group at a special annual meeting on June 27.

In a circular pnblished yesterday Scottish Amicable spelt out the details of the Prudential bid, whicb inclndes a £600m cash payment and £470m of special bonuses to be added to policies straight away.

In addition, policyholders will get extra bonuses estimated at £530m when their policies mature. The takeover will go ahead if 75 per cent of votes cast at the special meeting are in favour.

Tillinghast-Towers Perrin, the actuaries, and SBC Warburg, Scottisb Amicable's banking advisers, said Prudential'a bid was very close in value to those submitted by Abbey National, the UK financial services group, and by Australian Mutual Provident, the Australian insurer.

However, Prudential offered more cash to policyholders and paid more of the bonuses up front.

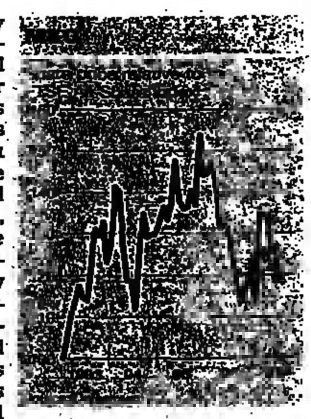
Abbey offered £425m in cash and AMP £504m.

But Mr Peter Birch, Abbey's chief executive, said he was glad his company had not won the bidding battle, adding that acquisition prices for UK financial service companies were reaching excessive levels.

"If you look and compare, you will see that the Prudential's offer for Scottish Amicable was considerably higher than we were prepared to pay," he said.

LEX COMMENT

M&G



There is a delicious irony in the market's punishment of M&G, traditional arch-advocate of higher dividends, for holding its payout flat. But if there is symbolism in such a departure from one of the gronp's rigid traditional investmant mantras, investora should be pleased. With luck it is further evidence that the new management team is shaking the business up. Yesterday's results showed how urgently change is needed. To be fair, all is not black. In institutional fund management, M&G has sparkled. But this merely makes the retail business's lousy performance all the more remarkable. The signs that independent financial advisers are losing confidence in M&G's formidable brand are unmistakeable: sales of unit trusts and personal equity plans have collapsed by 45 per cent since the same period last year, despite a heroic 34 per cent rise in marketing and commission costs.

Bad investment performance is not irreparable, and the management is plainly not asleep. But restoring M&G's retail reputation is bound to take time. Meanwhile, there remains an awkward question: how can a fund management group lifting earnings by just 6 per cent in booming markets plausibly be valued on a prospective multiple of 20? The thought will not deter speculators praying for a bid. But others face a contradiction: to buy M&G shares presumably requires faith in its "value investment" philosophy. And yet the group's own share price defies it.

M&G plans to sharpen edge as rise disappoints

By William Lewis, Investment Correspondent

The new management team at M&G, the fund management group, is to launch an unprecedented mailshot in an attempt to overcome the effects of recent poor investment performance.

Some 350,000 of the company's customers and 7,000 independent financial advisers will also be given details of one of the biggest shake-ups at M&G since it was founded in 1931.

It follows yesterday's release of disappointing results for the six months to March 31. Pre-tax profits were np 6 per cent at £33.2m ($54.1m) – marginally below analysts' expectations.

M&G kept the interim dividend static at 16p, altbough analysts said that the company had indicated that the full-year pay-ont would increase. During the six month period the group experienced a net outflow of retail funds under management of £137m.

M&G's shares closed down 60p at £12.82½p.

Analysts downgraded full-year forecasts, with Mr Martin Cross of UBS predicting £68m instead of £76m.

Several of the group's UK equity unit trusts have returned poor performances in recent years and Mr Michael McLintock, managing director, said the group was drawing up plans to "clarify and update the identities and investment policies of some of these funds".

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COMPANIES AND FINANCE: UK

Weak continental markets hold back industrial equipment side

Siebe jumps to £424m

By Charis Gresser

Siebe, the engineering company, dismissed talk of a slowdown in its main businesses yesterday as it delivered a 28 per cent jump in annual pre-tax profits to £424.1m ($691.3m) on turnover up from £2.59bn to £3bn.

Mr Allen Yurko, chief executive said: "You're not going to get any downbeat messages from us today. It's full speed ahead. Our markets are strong, we're strong and doing just fine."

Some analysts had begun to question Siebe's ability to continue to grow so rapidly. The group's shares, which have slipped back from a high of £10.82p in January, rose 13p yesterday to 961½p.

Underlying pre-tax profit jumped 22.3 per cent, and acquisitions also performed strongly, the company said, with Unitech, acquired for £520m last year, enhancing earnings by 0.6p per share. Sales, profits and operating margins were up in all three of the company's businesses on a like-for-like basis.

In control systems, profits before tax and interest charges grew 19.4 per cent and margins were 17 per cent (15.8 per cent). Mr Yurko highlighted the strong performance in temperature controls where profits grew 23.3 per cent and margins jumped nearly 2 percentage points to 16.3 per cent.

But there was disappointment at the performance of the company's industrial equipment division, where organic sales managed a modest rise of only 2.2 per cent. The division's profits growth also lagged the rest of the group at 8.8 per cent.

The company blamed restructuring and weak continental European markets for the performance. "It was a credible year, but we're not overly pleased with the result," said Mr Yurko.

Group organic sales grew 8.8 per cent, compared with the company's self-imposed target of 10 per cent.

"You set tough targets and sometimes you miss them," said Mr Yurko. Analysts were unconcerned. "They've reassured people that organic growth accelerated in the second half and in particular in their two core businesses," said one.


Brendan Corr

Barrie Stephens, chairman: upbeat results statement

Conerning Siebe's £327.4m offer for process equipment maker APV, Mr Yurko said: "We are absolutely confident we can turn APV round. They've been undercapitalised, and we reckon we will see an improvement within the next six to nine months."

Siebe'e offer values each APV share at 105p. They closed up ½p yesterday at 105p

RESULTS

		Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Dividends: Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
A de Gruchy Φ	Yr to Jan 31	48.9	(47.3)	3.31♥	(2.17)	17.6	(11.9)	5	July 30	4.28	7	6
Barrasford Φ	5½ mths to Mar 31	0.143□	(-)	0.001L	(-)	-	(-)	-	-	-	-	-
Berisford	6 mths to Mar 29	261	(242.6)	38.9♥	(11.9♠)	24.1	(6.6)	2	July 1	1.5	-	4.5
BTG	Yr to Mar 31	22.5	(20.6)	2.73L	(2.74L)	3.31L†	(4.39L)	0.88	Aug 6	0.8#	0.88	0.8#
Clyde Blowers	6 mths to Feb 28	28.6	(21.5)	0.089♠	(0.931)	0.54	(6.99)	2.67	July 25	2.67	-	6
Crabtree	6 mths to Mar 31	22.9	(16.6)	0.448	(0.989)	1.5†	(3.8)	1	Aug 6	3.75	-	9
Dart	Yr to Mar 31	72.1	(69)	4.64	(3.6♠)	16.3	(14.6)	4.4	August 28	4	6.5	5.9
Ennstone	9 mths to Dec 31 ♦	4.13	(7.99)	10.4L♠	(0.478L)	37.7L	(3.3L)	-	-	-	-	-
Hardy U'writing Φ	Yr to Jan 31 ✠	5.07	(5.07)	0.293	(0.121)	6.11†	(8.45)	2	July 15	-	2	-
Hewitt Whiting	Yr to Dec 31	74.6	(77.8)	1.67	(1.24)	2.5L	(nil)	0.1	Aug 13	2.5	0.1	2.5
London Intl	Yr to Mar 31	339.2	(309.6)	29.5♠	(26.2)	5.5	(5.76)	2.1	Aug 22	1.5	2.8	2
M&G	6 mths to Mar 31	74.5	(70.4)	33.2	(31.2♠)	30.4	(28.8)	16	July 17	16	-	36
Mid Kent Holdings	Yr to Mar 31	41	(41.4)	13.8♠	(12.3♠)	59.6	(58.7)	16	July 29	17.75	30	24
Plasmon	Yr to Mar 31	33.4	(26.1)	1.86	(1.01)	10.25†	(6.46)	1	July 21	-	1.5	-
Raglan Properties	Yr to Mar 31	34.6	(28)	2.1	(2.37♠)	1.4	(1.22)	1.1	Aug 22	1.1	1.1	1.1
Richards	6 mths to Mar 31	32.4	(32.9)	0.007	(0.511L)	0.24L	(2.45L)	1.07	July 1	1.07	-	2
Rolfe & Nolan	Yr to Feb 28	20.3	(17.1)	2.76	(2.52)	14.5	(12.33)	3.8	July 22	3.2	5.5	4.8
Siebe	Yr to Apr 5	3,005	(2,599)	424.1♥	(331.1♥)	54.1†	(45)	9.8	Oct 6	8.87	14.7	13.31
South West Water	Yr to Mar 31	343.6	(314.4)	132.6♥	(109.1)	92.1	(77.7)	24.9	Oct 1	20.7	38.7	30.5
Stakis	6 mths to Mar 30 ★	141.1	(95.8)	22.2♠	(12)	2.84†	(2.23)	1.05	Sept 4	0.95	-	2.15
Theo Fennell Φ	Yr to Mar 31 ☆	10.6	(8.1)	0.517♠	(0.496)	2.14	(2.79)	-	-	-	-	-
TLG	Yr to Mar 31	383.9	(380.4)	6.6♠	(28.6)	0.8	(10.2)	2.9	Aug 12	2.9	4.3	4.3
Tring Intl	Yr to Mar 31	18.8	(28.6)	2.09L♠	(3.02)	3.68L	(4.62)	nil	-	0.5	nil	1.92
United Drug ‡	6 mths to Mar 31	143.3	(119.8)	3.26	(2.72)	10.57†	(10.03)	3	July 21	2.8	-	8.86
United Utilities	Yr to Mar 31	2,377	(1,839)	283.9♠	(272.6♠)	44.9†	(51.7)	25.2	Oct 1	19.58	37.2	28.88§

Investment Trusts		NAV (p)		Attributable Earnings (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Invesco Korea ★	Yr to Mar 31	82.9	(141.5)	0.085	(0.024)	0.26	(0.07)	-	-	-	-	nil

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. ΦAim stock. ♠After exceptional charge. ♥After exceptional credit. □Net rental income. †On increased capital. #After share split. ♦Comparatives for 12 months to March 31 1996. ✠Comparatives pro forma for 15 months. ★Comparatives restated. ☆Comparatives for 14 months. ‡Irish currency. §Excludes 3.8p special.

THE PROPERTY MARKET

Wishlist for investors

International rules need reform, says Mark Suzman

Defining a property transaction is always tricky business – never more so than when it involves an international investment.

For multinational companies, inward investment into offices or factories is rarely seen as a property deal. The main priority is normally acquiring the company that holds such assets.

Add to that the problem that countries have widely different ways of valuing such activities, and calculating the importance of property to global foreign direct investment (FDI) flows is extremely difficult.

The most recent attempt to do so – a report published this month by the Economist Intelligence Unit on behalf of the Royal Institution of Chartered Surveyors – came up with a guess that it represents between 5 per cent and 20 per cent of the $350bn in annual FDI flows.

But as Andrew Apostolou, the report's author, admits, the real number could be higher. "The lack of data means that it's impossible to measure properly," he says.

Whatever the actual figure, it is undoubtedly very big: even at the low end of the estimate – some $17.5bn – it represents more FDI than the whole of eastern Europe attracts every year. At the high end, it represents double that of China.

That makes it strange that property plays such a small role in international trade agreements. As the report points out, even in highly integrated economies such as the European Union there are vast differences in property markets and regulations.

"The real estate sector is governed by very complex, state-specific rules and regulations that can easily distort or deter investment flows. But to date little attention has been paid to the confusion and problems that the morass of different regulations can cause to investors," it argues.

For example, in getting planning approval in the UK, the process is based on the merits of each application, while in Germany it is much less flexible: provided key criteria are met, the project will get approval.

Similarly, during the planning process, the UK gives direct feedback to the potential investor, while Germany does not. Differences are further aggravated by widely divergent health, safety and environmental regulations.

The situation is more complicated in developing countries, many of which have direct restrictions on foreign ownership of property.

Brazil, for example, prohibits foreign ownership of land within 150km of international borders.

In India, property investments are restricted to companies that are at least 60 per cent owned by non-resident Indians or foreigners of Indian descent. No rental income or proceeds from a property sale can be remitted outside the country.

On top of that, valuation techniques and the role of real estate professionals differ widely round the world – in some countries they can act as both agent and valuer; in others that is forbidden because of perceived conflicts of interest.

All that makes property regulation ripe for investigation by the World Trade Organisation and other international trade bodies.

As Jeremy Bayliss, chief executive of the Royal Institution of Chartered Surveyors, points out, co-ordinating international property rules would provide big benefits for the industry.

"Those developing multilateral agreements on investment need to take account of the property sector so that investors, particularly foreign direct investors, have a more stable and transparent regime in which to operate," he says.

Specifically, the report argues there is a desperate need for an international system that provides guarantees of property rights, with full investor protection, including guaranteed compensation for confiscations.

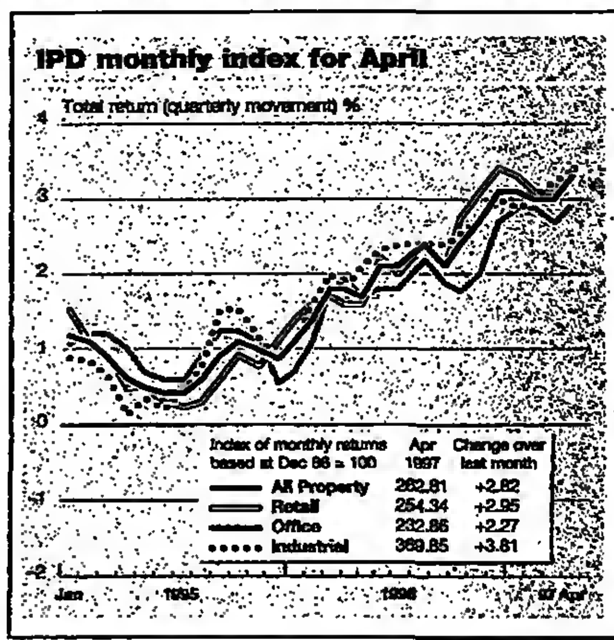
"That in turn requires transparency in international standards to allow accurate measurement and harmonisation of property market services. Finally – but most difficult to achieve in practice – it needs greater harmonisation of planning and development practices, including environmental and health standards.

Taken together, those recommendations represent more of a wishlist than an agenda for action. But the report does demonstrate the need to treat property as a critical component of FDI flows round the world.

For whatever the true figure of FDI flows into the sector, it will become much larger if reforms are carried out. "Ridding the world trading investment system of these barriers is a win-win scenario for all sides," the study concludes.

Global Direct Investment and the Importance of Real Estate, Economist Intelligence Unit, 15 Regent Street, London SW1 4LR, UK.

IPD monthly index for April



Decline in month

The Investment Property Databank's All Property Total Return Index for the UK stood at 262.81 at the end of April. This reflected a monthly return of 1.1 per cent against 1.2 per cent last month.

The drop was due to a 0.1 percentage point fall in the rate of capital growth, to 0.4 per cent, which in turn reflected the reduced pace of rental value growth seen *during April*.

While offices were able to sustain March's ERV growth through to April, neither retails nor industrials could match last month's rate of growth.

Capital growth was protected to some extent as valuation yields, on average, shortened during April recording an associated yield shift of –0.02 percentage points.

Over the longer term all the main performance measures have improved, with capital growth and total return measuring 2.5 per cent and 11.3 per cent respectively for the year to April.

Twelve-monthly capital growth rates have increased in all three sectors, now measuring between 0.6 per cent (offices) and 4.2 per cent (retailing).

COMMERCIAL PROPERTY

INTERNATIONAL CAPITAL MARKETS

Italy leads continental Europe lower

GOVERNMENT BONDS

By Michael Lindemann in London and Jane Martinson in New York

Italy led continental European government bond markets loweryesterday, as investors withdrew to protect themselves from the rift between the German government and the Bundesbank.

Analysts suggested US Treasuries would be the immediate benefactors, but only over the short-term, given expectations of a US interest rate rise in coming months. Prospects for European markets were likely to remain dull, they said.

"The clearest message we can send investors is to sell European bonds altogether," said Ms Phyllis Reed, bonds analyst at BZW.

The yield spread between Treasuries and bunds is likely to narrow from yesterday's 93 basis points, analysts said. However, regardless of anxieties about a single currency, German bunds were not offering good returns, Ms Reed said. "Sub 6 per cent yields look a bit extreme at this stage of the game."

Mr Huw Roberts, European bond strategist at NatWest Capital Markets, shared the bearish sentiment about European government bonds but pointed out that the DM20bn which the German government might gain from the revaluation of its gold reserves represented about 0.5 per cent of Germany's GDP.

"It's not a huge reflation which is going to undo the market's belief that we are not going to get a rates hike in the future.

Analysts said gilt prices were likely to rise further as bond investors moved out of Europe. "Gilts are looking cheap on spreads," Mr Roberts said.

GERMAN BUND futures were volatile despite a German public holiday, with the June bund future settled at 100.48, down 0.33.

FRENCH OATs proved relatively resilient despite anxieties about the forthcoming elections. The June notional future settled at 128.14, down 0.02.

"We keep seeing domestic buyers on each downturn, that'e why the market is holding up so well," said Ms Nathalie Filet of Paribas.

SPANISH BONOS were in no mind to be different, settling down 0.35 at 114.64. Ms Reed said shorter Spanish maturities still offered good value because yield spreads over bunds remained significantly higher than at the 10-year end.

In spite of analysts' predictions that **UK GILTS** could benefit from the continental European storms, there was little evidence yesterday. The June long gilt future settled at 112$\frac{1}{16}$, down $\frac{1}{4}$.

US TREASURIES were higher at mid-session, with investors seeing some buying opportunities at the important 7 per cent yield barrier. The benchmark 30-year bond rose $\frac{1}{16}$ to 95$\frac{5}{16}$, yielding 6.998 per cent.

"There is a common wisdom in the market that 7 per cent is the beginning of bargain territory," said Mr David Munro, chief US economist at High Frequency.

Otherwise, there was little reaction to economic data on jobless claims and a business outlook report.

Initial weekly unemployment claims remained unchanged, in line with expectations, while a report showing a slight fall in a business outlook index had also been predicted.

Ms Marilyn Schaja, money markets economist at Donaldson, Lufkin & Jenrette, said: "The markets really didn't get too much information from the data." A stronger impact is expected from data due out today and next week.

In early trading the two-year bond rose $\frac{1}{16}$ to 99$\frac{3}{4}$, yielding 6.301 per cent, while the 10-year note rose $\frac{3}{32}$ to 99, yielding 6.760 per cent.

● Matif, the French futures and options exchange, will today start listing four new contracts on the 10-year yield spreads between German bunds and other government bonds – French OATs, Italian BTPs, Spanish bonos and US Treasuries – writes Samer Iskandar.

The long-term yield spread futures, or LYS, will allow traders and financial institutions to protect themselves against – or bet on – changes in yield spreads, which have been volatile in recent months.

The BTP yield spread over bunds, for example, has narrowed from 475 basis points at the beginning of 1996 to around 140 basis points, on hopes that the two countries' bond markets would converge if Italy were to join European monetary union from its planned start in January 1999.

Romania to issue debut D-Mark deal

INTERNATIONAL BONDS

By Kevin Done and Samer Iskandar

Romania is to launch its debut D-Mark denominated eurobond next week, in what will be a test of the credibility of the tough economic reform package launched by the country's new centre-right government.

The five-year issue, led by CSFB and Deutsche Bank, will be for between DM300m and DM500m. It is expected to be priced to yield close to 300 basis points over the equivalent German bund.

Mr Mircea Costea, Romania's deputy finance minister, said the bond was expected to be followed by a further issue in the second half of the year – possibly in Japanese yen or US dollars.

Romania's foreign borrowing for the year is expected to total between \$1.5bn and \$1.7bn, said Mr Mugur Isarescu, governor of the National Bank of Romania.

Mr Isarescu said he hoped year-on-year inflation in Romania would fall to between 20 per cent and 25 per cent by the end of 1998 from as much as 120 per cent at the end of this year.

Inflation has jumped following measures earlier this year to liberalise prices, with a monthly rise of 31 per cent in March, but Mr Isarescu said monthly rises could fall to between 2 and 2.5 per cent during the autumn.

Uoder the tough reform programme, inclnding accelerated privatisation, economic restructuring and tight monetary and fiscal policies, the economy is forecast to contract by around 2 per ceot this year.

SUTTON BRIDGE FINANCING launched two simultaneous bonds in dollars and sterling totalling £286m equivalent, as part of the £337m financing of the 790MW Sutton Bridge Power station in Lincolnshire.

The two bonds have very similar structures: they are gradually redeemed between 2002 and 2014, with an average life of 14 years, and are identically backed by the issner's assets. The US tranche, sold to institutional investors under Rule 144a of the Securities and Exchange Commission, was priced to yield 120 basis points over US Treasuries, while the sterling bond was offered with a yield of 135 basis points over the UK gilt maturing in 2011.

BZW, joint lead manager with Merrill Lynch, said the sterling bond had been fully sold. The Sutton Bridge Power project is entirely owned by Enron, of the US.

The day's largest transaction was from **TOKYO ELECTRIC POWER** – \$500m of 10-year bonds. Goldman Sachs and Sakura Finance led the deal, which was described as "fairly priced".

A Japanese syndicate manager in London said tha deal's placement was akin to a euro-Asian issue. "With a coupon of more than 7 per cent and the dollar having retreated from its highs against the yen, this bond proved attractive to Japanese institutions," ne said.

HOUSEHOLD FINANCE, the US consumer finance provider which recently acqnired the consumer finance activities of Transamerica for \$1.1bn, raised \$400m through its subsidiary Household Bank. Morgan Stanley, which led the deal, said the issuer wanted to "focus investors' attention with a benchmark deal". An official added: "There are not that many floating rate issues with maturities of more than five years."

New international bond issues

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book-runner
US DOLLARS							
Tokyo Electric Power Co	500	7.125	99.815R	Jun 2007	0.325R	+28(6%May07)	Goldman/Sakura Finance
Household Bank Nevada‡	400	(a)	99.655R	Jun 2004	0.275R	-	Morgan Stanley & Co Intl
Petroleos Mexicanos(s)	250	9.00#	100.00R	Jun 2007	0.60R	-	UBS Securities
Rabobank Nederland(b)	250	6.375	99.50R	Jun 2000	0.1875R	+1(6⅜%May00)	Nikko Europe
Banco Hipotecario Nacional	125	(c)#	(c)R	Jun 1999	0.40R	(c)(2yr UST)	Lehman Brothers Intl
STERLING							
Sutton Bridge Financing(d,l)	195	8.625#	99.523R	Jun 2022	1.00R	+135(9%-11)	BZW/Merrill Lynch Intl
SWISS FRANCS							
JP Morgan & Co(e,s)	150	2.00	99.50	Dec 2001	1.75	-	SBCW/UBS
ITALIAN LIRE							
Merrill Lynch & Co(f)	150bn	7.00	100.00R	Jun 2000	0.225R	-	Merrill Lynch Intl
LUXEMBOURG FRANCS							
Banque Paribas Luxembourg	2bn	6.375	102.00	Jul 2007	2.00	-	Banque Paribas Lux

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. ‡ Floating-rate note. #Semi-annual coupon. R: fixed re-offer price; fees shown at re-offer level. a) 3-mth Libor +15bp. b) \$250m launched 21/5/97 increased to \$500m. c) Price later: Treasuries +170bp area. d) Amortises after 5 yrs. Average life: 14 yrs. Spens call provision. Also launched: \$150m in US 144a market. e) Fungible with SFr250m. Plus 124 days accrued. f) Issuers option to exchange on 12/5/98 & 99 into FRN paying 6-mth Libor +20bp. l) Long 1st coupon. s) Short 1st coupon.

CAPITAL MARKETS NEWS DIGEST

Eurobond interest method under fire

The passage to a single European currency should be used as a catalyst to reform an archaic market practice, according to five leading financial associations and the two clearing banks that settle most international securities transactions. The practice in question is the method by which interest on eurobonds is compounded. The current convention, developed in days when calculation systems were limited, assumes that a year comprises 12 months of 30 days each – a total of 360 days.

Although this method made calculations easier, it often led to distortions, especially when a trade took place at the end of a month, resulting in one counterpart paying the other too much – or too little – interest. A joint statement recommends the adoption of a method counting the exact number of days in each month, which is already prevalent in most government bond markets.

The proposal is part of a set of market conventions put forward by international associations representing bond traders and issuers, participants in the foreign exchange and derivatives markets, as well as Cedel and Euroclear, the international clearing banks.

The five associations are: ACI, the Financial Market Association; the International Paying Agents Association; International Primary Market Association; International Securities Market Association; International Swaps and Derivatives Association. The clearing banks are Cedel Bank and Morgan Guaranty, which operates the Euroclear system.

Samer Iskandar, London

Russian hedge fund launched

Firebird, a US-based hedge fund, has set up a new vehicle aimed at rednicing volatility and downside risk in Russia. The New Russia Fund claims to offer a unique way of hedging against volatility with a combination of debt and leveraged equity.

Ms Constance Hunter, Firebird vice-president, says the "essence" of the fund is the use of call options on shares at the same time as the purchase of GKOs – rouble-denominated bonds which typically rum for one year. "Nobody else is doing this," she said.

She believes the success of the fund, launched last week, suggests the broadening of interest among investors for emerging market funds. Investors in Russian funds, which have performed well over the past year, are becoming more nervous about the longer term outlook.

The strategy was designed for investors who "want to have Russian exposure but feel nervous" about its volatility, said Ms Hunter. However, she also believes it will prove popular with the existing range of US and European investors in emerging markets. The portfolio is currently \$18m but Ms Hunter says that initial interest indicates a "potential of some \$100m".

In essence the new fund will only really be effective against one kind of risk - a sharp fall in the price of Russian stocks. But by doing so the fund aims to improve long-term performance in a market which it expects to remain volatile.

Jane Martinson, New York

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Day's change	Yield	Week ago	Month ago
Australia		6.750	11/06	94.5277	+0.390	7.57	7.68	7.87
Austria		5.750	04/07	0.0000	-	0.00	5.92	5.92
Belgium		8.250	03/07	101.5000	-0.300	8.04	5.99	6.02
Canada *		7.000	12/06	103.0300	+0.380	6.57	6.47	6.99
Denmark		8.000	03/06	110.2800	-0.180	6.43	6.43	6.60
France	BTAN	4.750	03/02	99.4867	-0.170	4.87	4.78	4.90
	OAT	5.500	04/07	97.3000	-0.270	5.87	5.78	5.82
Germany Bund		6.000	07/07	0.0000	-	0.00	5.91	5.89
Ireland		8.000	08/06	108.4400	-0.230	6.73	6.73	6.77
Italy		6.750	02/07	96.4900	-0.300	7.26†	7.15	7.52
Japan	No 145	6.500	03/02	115.8441	+0.060	1.90	1.79	1.42
	No 182	3.000	09/05	102.5225	+0.380	2.63	2.55	2.15
Netherlands		5.750	02/07	99.4600	-0.100	5.82	5.80	5.77
Portugal		9.500	02/06	0.0000	-	0.00	6.42	6.81
Spain		7.350	03/07	104.4900	-0.360	6.69	6.58	6.95
Sweden		6.000	08/07	106.3971	+0.070	7.10	7.02	7.25
UK Gilts		7.000	08/02	99-21	-1/32	7.08	7.12	7.27
		7.250	12/07	100-03	-4/32	7.24	7.28	7.57
		9.000	10/08	112-31	-5/32	7.30	7.35	7.66
US Treasury *		6.625	05/07	98-30	-1/32	6.77	6.74	6.84
		6.625	02/27	95-09	-	7.00	6.98	7.07
ECU (French Govt)		7.000	04/06	105.6800	-0.150	6.15	8.05	6.25

London closing, *New York mid-day. Yields: Local market standard.
† Gross (including withholding tax at 12.5 per cent payable by nonresidents)
Prices: US, UK in 32nds, others in decimal. Source: MMS International

US INTEREST RATES

Latest		Treasury Bills and Bond Yields			
		One month	-	Two year	6.32
Prime rate	8½	Two month	-	Three year	6.46
Broker loan rate	7¼	Three month	5.11	Five year	6.62
Fed.funds	5⅞	Six month	5.46	10-year	6.77
Fed.funds at intervention	5½	One year	5.84	30-year	7.00

BOND FUTURES AND OPTIONS

France

■ NOTIONAL FRENCH BOND FUTURES (MATIF) FFr500,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Jun	127.96	128.14	-0.02	128.24	127.90	182,100	173,112
Sep	126.40	126.58	-0.02	126.66	126.40	20,407	26,049
Dec	95.82	96.00	-0.02	95.82	95.82	2	-

■ LONG TERM FRENCH BOND OPTIONS (MATIF)

Strike Price	CALLS Jun	CALLS Jul	CALLS Sep	PUTS Jun	PUTS Jul	PUTS Sep
125	3.14	1.95	2.38	-	0.38	0.81
126	2.14	1.24	1.72	-	0.66	1.14
127	1.14	0.68	1.17	-	1.10	1.58
128	0.14	0.31	0.74	-	1.73	2.15
129	-	0.12	0.43	0.86	2.53	2.83

Est. vol. total, Calls 36,512 Puts 48,385. Previous day's open int., Calls 159,070 Puts 218,423.

Germany

■ NOTIONAL GERMAN BUND FUTURES (LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	100.36	100.48	-0.33	100.64	100.33	190681	223748
Sep	99.38	99.45	-0.33	99.62	99.32	17296	47378

■ BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

Strike Price	CALLS Jul	CALLS Aug	CALLS Sep	CALLS Dec	PUTS Jul	PUTS Aug	PUTS Sep	PUTS Dec
9900	0.94	1.19	1.40	1.32	0.49	0.74	0.95	1.87
9950	0.65	0.91	1.12	1.11	0.70	0.96	1.17	2.18
10000	0.42	0.68	0.87	0.93	0.97	1.23	1.42	2.48

Est. vol. total, Calls 14381 Puts 23631. Previous day's open int., Calls 121741 Puts 120039

Italy

■ NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	128.80	128.72	-0.41	129.28	128.52	72546	86385
Sep	129.40	129.21	-0.46	129.80	129.00	14453	27283

■ ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFFE) Lira200m 100ths of 100%

Strike Price	CALLS Sep	CALLS Dec	PUTS Sep	PUTS Dec
12900	2.22	0	2.01	26.38
12950	1.97	0	2.26	26.88
13000	1.72	0	2.51	27.38

Est. vol. total, Calls 3967 Puts 6130. Previous day's open int., Calls 27062 Puts 30587

Spain

■ NOTIONAL SPANISH BOND FUTURES (MEFF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Jun	114.55	114.62	-0.35	115.00	114.54	132,313	89,238
Sep	113.82	113.84	-0.24	114.16	113.82	3,090	12,541

UK

■ NOTIONAL UK GILT FUTURES (LIFFE)* £50,000 32nds of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	112-05	112-06	-0-04	112-15	112-04	86834	130399
Sep	112-15	112-18	-0-04	112-25	112-14	39832	100739

■ LONG GILT FUTURES OPTIONS (LIFFE) £50,000 64ths of 100%

Strike Price	CALLS Jul	CALLS Aug	CALLS Sep	CALLS Dec	PUTS Jul	PUTS Aug	PUTS Sep	PUTS Dec
112	1-11	1-35	1-58	2-26	0-43	1-03	1-26	2-18
113	0-41	1-03	1-25	1-60	1-09	1-35	1-57	2-52
114	0-21	0-43	0-63	1-35	1-53	2-11	2-31	3-27

Est. vol. total, Calls 1498 Puts 775. Previous day's open int., Calls 28126 Puts 19026

Ecu

■ ECU BOND FUTURES (MATIF) ECU100,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Jun	94.00	94.36	+0.12	94.34	93.96	818	5,201
Sep	-	93.98	+0.12	-	-	-	-

US

■ US TREASURY BOND FUTURES (CBT) \$100,000 32nds of 100%

	Open	Latest	Change	High	Low	Est. vol.	Open int.
Jun	108-24	109-04	+0-13	109-04	108-23	427,807	380,137
Sep	108-12	108-23	+0-12	108-23	108-11	86,376	99,305
Dec	108-02	108-10	-	108-09	108-00	1,634	25,549

Japan

■ NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

	Open	Close	Change	High	Low	Est. vol	Open int.
Jun	123.46			123.62	123.30	5139	na
Sep	122.01			122.18	121.84	2631	na

* LIFFE futures also traded on APT. All Open interest figs. are for previous day.

FTSE Actuaries Govt. Securities

Price Indices UK Gilts	Thu May 29	Day's change %	Wed May 28	Accrued interest	xd adj. ytd
1 Up to 5 years (19)	119.34	-0.05	119.97	1.70	5.38
2 5-15 years (21)	150.71	-0.13	152.58	1.80	5.47
3 Over 15 years (8)	175.90	-0.15	178.03	4.74	5.02
4 Irredeemables (5)	202.26	-0.43	201.38	1.12	7.10
5 All stocks (51)	145.17	-0.10	146.61	2.29	5.48
Index-linked					
6 Up to 5 years (2)	204.08	-0.01	204.11	0.96	3.03
7 Over 5 years (10)	195.24	0.03	195.18	1.32	2.86
8 All stocks (12)	195.12	0.03	195.06	1.28	2.86

UK Indices

	Low coupon yield May 29	May 28	Yr. ago	Medium coupon yield May 29	May 28	Yr. ago	High coupon yield May 29	May 28	Yr. ago
5 yrs	7.10	7.08	7.62	7.18	7.14	7.86	7.23	7.18	7.78
15 yrs	7.33	7.30	8.34	7.32	7.31	8.36	7.29	7.39	8.44
20 yrs	7.37	7.35	8.41	7.33	7.32	8.41	7.29	7.42	8.48
Irred.†	7.42	7.45	8.43						

	Inflation 5% May 29	May 28	Yr. ago	Inflation 10% May 29	May 28	Yr. ago
Up to 5 yrs	3.55	3.54	2.97	2.90	2.88	1.83
Over 5 yrs	3.69	3.69	3.77	3.48	3.46	3.58

Average gross redemption yields are shown above. Coupon Bands: Low: 0%-7¾%; Medium: 8%-10¾%; High: 11% and over. † Flat yield. ytd Year to date.

FT Fixed Interest Indices

	May 29	May 28	May 27	May 23	May 22	Yr ago	High*	Low*
Govt. Secs. (UK)	95.74	95.82	95.87	95.91	95.68	91.84	97.51	93.31
Fixed interest	120.02	119.80	120.35	120.52	120.39	110.60	121.56	115.32

Gilt Edged Activity Indices

	May 28	May 27	May 23	May 22	May 21
Gilt Edged bargains	NA	NA	NA	NA	NA
5-day average	NA	NA	NA	NA	NA

 * for 1997. Government Securities high since compilation: 127.40 (09/01/35), low 49.18 (03/01/75). Fixed Interest high since compilation: 139.87 (21/01/94), low 50.53 (03/01/75). Basis 100: Government Securities 15/10/26 and Fixed Interest 1928. SE activity indices rebased 1974. Gilt Edged volume data will be unavailable until the end of May.

FT/ISMA INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Latest prices at 7:00 pm on May 29

	Issued	Bid	Offer	Chg.	Yield
U.S. DOLLAR STRAIGHTS					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

UK GILTS PRICES

	Notes	Yield Int	Yield Red	Price £	+ or -	52 week High	52 week Low
Shorts (Lives up to Five Years)							
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Other Fixed Interest

[illegible]

CURRENCIES AND MONEY

Dollar pauses after gold row surge

MARKETS REPORT

By Robert Chote

Trading in the foreign exchange markets was thin and volatile yesterday as investors fretted about the implications of the Bundesbank's row with the German government and the next round of elections in France.

The conflict between the Bundesbank and the coalition government in Bonn over the latter's plan to revalue the central bank's gold reserves has left the market heartily confused about the outlook for European economic and monetary union and, therefore, the outlook for the D-mark.

"The options have been totally polarised", said Mr Kit Juckes, bond and currency strategist at NatWest Markets in London. "It is now fudge or death".

The dollar closed in London yesterday at DM1.6967, down fractionally from Wednesday's close of DM 1.6968 but well off its intra-day high of DM1.7067. Mr Claudio Demolli, foreign exchange strategist at Merrill Lynch, said the dollar had succumbed to profit-taking, in the absence of good economic news on the US.

Against the Japanese yen, the dollar ended the day at Y115.97, up a little from Wednesday's London close of Y115.445. The yen suffered from an unexpected drop in Japanese industrial production during April, which dampened expectations of higher interest rates. After the London close, the dollar jumped above Y116 when a Bank of Japan official was reported to say that the economy could not withstand higher rates.

■ Pound in New York

May 29	—Latest—	— Prev. close —
£ spot	1.6405	1.6395
1 mth	1.6394	1.6384
3 mth	1.6372	1.6363
1 yr	1.6294	1.6282

■ Yesterday's volatility reflected the fact that the row between Bonn and Frankfurt can be read in two ways for the D-mark.

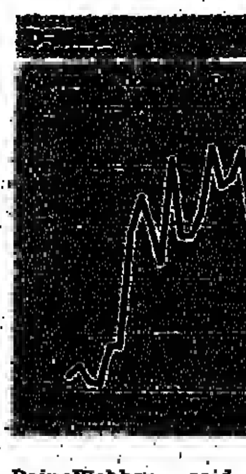
Some analysts believe that Bonn's decision to resort to "creative accounting" to meet the fiscal criteria in the Maastricht treaty means that the Emu net will be cast wide to countries such as Italy and Spain, with the result that the euro will eventually be weak and that in the meantime so will the D-mark. But the opposing camp believes that the row will force the delay or abandonment of Emu, which is good for the D-mark.

"The news can be seen as mark supportive and market negative, depending on the time-frame that you look at and the ultimate outcome of events", said Mr Dennis Pettit, foreign exchange manager at Long Term Credit Bank of Japan in New York.

Ms Alison Cottrell, chief international economist at PaineWebber, said the squabbling in Germany did not necessarily portend D-mark weakness.

She believes the market may decide that the Bundesbank's annoyance at Bonn will become reflected in tighter interest rate policy.

"Add to this the increased fear of Emu not getting off the ground at all, and we are looking at increased upward pressures on the D-mark – which by destabilising the European crosses would itself further dampen broad Emu hopes, reinforcing the D-mark trend", she said.



■ Sunday's election run-off in France added to the market's febrile mood, amid rumours of opinion polls pointing to different results.

The French franc ended the day at FFr3.393 against the D-mark, down from Wednesday's close of FFr3.38. Mr Juckes said sterling and the dollar promised to benefit from any further Emu-related nervousness in the run-up to the election.

The Italian lira strengthened from L991.3 to the D-mark to L989.4, with investors reluctant to take big bets ahead of today's cabinet meeting in Rome. This will discuss plans to meet the Maastricht criteria.

■ The Swiss National Bank's unexpected decision to leave its discount rate unchanged at 1 per cent pushed the Swiss franc higher against the D-mark.

Hedge funds, Swiss funds and US investment houses were all taking an interest, according to Mr Nick Shamim, currency strategist at ANZ investment bank. The Swiss franc closed at SFr0.831 to the D-mark from SFr0.834 on Wednesday.

The central bank had fuelled expectation of a discount cut over recent days by pumping liquidity into the money market. Mr Demolli said it seemed to regard a reduction in interest rates to Japanese levels as a measure only to be taken in the last resort.

■ OTHER CURRENCIES

May 29	£	$
Czech Rp	52.1626 - 52.2879	31.8230 - 31.8790
Hungary	298.187 - 298.434	181.910 - 181.950
Iran	4920.60 - 4917.80	3000.00 - 3000.00
Kuwait	0.4952 - 0.4957	0.3021 - 0.3022
Poland	5.2307 - 5.2470	3.1910 - 3.1980
Russia	9453.27 - 9462.31	5767.00 - 5769.00
U.A.E.	6.0183 - 6.0253	3.6715 - 3.6735

POUND SPOT FORWARD AGAINST THE POUND

May 29		Closing mid-point	Change on day	Bid/offer spread	Day's Mid high	Day's Mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	Bank of Eng. Index
Europe													
Austria	(Sch)	19.5802	+0.016	698 - 905	19.6552	19.5411	19.5287	3.3	19.4387	2.9	-	-	103.2
Belgium	(BFr)	57.4387	+0.0575	884 - 890	57.6440	57.2190	57.2837	3.2	56.9887	3.3	55.5387	3.3	103.1
Denmark	(DKr)	10.5950	+0.0052	901 - 998	10.6388	10.5769	10.5695	2.9	10.517	2.9	10.2965	2.8	105.9
Finland	(FM)	8.3911	+0.0015	845 - 977	8.4340	8.3840	-	-	-	-	-	-	82.3
France	(FFr)	9.4385	+0.0418	334 - 435	9.4441	9.3845	9.4143	5.1	9.3684	3.1	9.1438	3.1	106.7
Germany	(DM)	2.7820	+0.0024	806 - 834	2.7940	2.7759	2.7744	3.3	2.7584	3.4	2.6881	3.4	104.5
Greece	(Dr)	446.039	-0.109	780 - 298	448.580	445.721	-	-	-	-	-	-	64.6
Ireland	(I£)	1.0863	+0.0035	852 - 873	1.0889	1.0825	1.0864	-0.1	1.0854	0.3	1.0784	0.7	98.0
Italy	(L)	2752.49	-3.04	123 - 375	2770.35	2751.07	2754.39	-0.8	2755.79	-0.5	2741.89	0.4	76.1
Luxembourg	(LFr)	57.4387	+0.0575	884 - 890	57.6440	57.2190	57.2837	3.2	56.9887	3.3	55.5387	3.3	103.1
Netherlands	(Fl)	3.1305	+0.0026	289 - 321	3.1432	3.1242	3.122	3.3	3.104	3.4	3.0259	3.3	102.7
Norway	(NKr)	11.5881	+0.004	805 - 957	11.6285	11.5565	11.5576	3.2	11.4981	3.1	11.2521	2.9	98.1
Portugal	(Es)	281.783	-0.012	451 - 114	282.904	281.290	281.633	0.8	281.258	0.7	-	-	93.6
Spain	(Pta)	235.469	-0.125	356 - 582	236.600	235.340	235.309	0.8	234.869	1.0	232.114	1.4	77.7
Sweden	(SKr)	12.6286	+0.0389	186 - 386	12.6896	12.5651	12.6071	2.0	12.5691	2.2	12.3651	2.1	83.8
Switzerland	(SFr)	2.3112	-0.0079	096 - 127	2.3285	2.3063	2.3019	4.9	2.2827	4.9	2.1987	4.9	106.5
UK	(£)	-	-	-	-	-	-	-	-	-	-	-	99.1
Ecu	-	1.4295	+0.0009	284 - 305	1.4350	1.4255	1.4268	2.2	1.4209	2.4	1.3938	2.5	-
SDR†	-	1.17486	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	1.6395	+0.0016	389 - 400	1.6403	1.6328	-	-	-	-	-	-	-
Brazil	(R$)	1.7613	+0.0039	605 - 621	1.7625	1.7543	-	-	-	-	-	-	-
Canada	(C$)	2.2629	-0.001	619 - 640	2.2687	2.2552	2.2567	3.3	2.2452	5.1	2.2035	2.6	84.5
Mexico	(New Peso)	12.9725	+0.0151	661 - 788	12.9800	12.9252	-	-	-	-	-	-	-
USA	($)	1.6397	+0.0015	392 - 402	1.6408	1.6330	1.6387	0.7	1.6368	0.7	1.6288	0.7	102.4
Pacific/Middle East/Africa													
Australia	(A$)	2.1455	-0.002	441 - 469	2.1483	2.1319	2.1449	0.3	2.143	0.5	2.133	0.6	93.6
Hong Kong	(HK$)	12.7036	+0.0185	989 - 083	12.7088	12.6525	12.6976	0.6	12.687	0.5	12.6523	0.4	-
India	(Rs)	58.6931	+0.0537	342 - 520	58.7520	58.4570	-	-	-	-	-	-	-
Israel	(Shk)	5.5570	+0.0045	503 - 637	5.5840	5.5480	-	-	-	-	-	-	-
Japan	(Y)	190.156	+1.034	033 - 280	191.110	188.870	189.086	6.7	187.086	6.5	178.271	6.3	130.4
Malaysia	(M$)	4.1170	+0.0035	149 - 190	4.1220	4.1000	-	-	-	-	-	-	-
New Zealand	(NZ$)	2.3745	+0.0011	726 - 764	2.3772	2.3654	2.3743	0.1	2.3753	-0.1	2.3824	-0.3	113.1
Philippines	(Peso)	43.2455	+0.0429	929 - 980	43.3079	43.1079	-	-	-	-	-	-	-
Saudi Arabia	(SR)	6.1498	+0.0056	475 - 521	6.1529	6.1248	-	-	-	-	-	-	-
Singapore	(S$)	2.3453	+0.0031	437 - 468	2.3472	2.3360	-	-	-	-	-	-	-
South Africa	(R)	7.3270	-0.0007	223 - 317	7.3347	7.3028	-	-	-	-	-	-	-
South Korea	(Won)	1463.43	+1.34	889 - 798	1468.40	1458.96	-	-	-	-	-	-	-
Taiwan	(T$)	45.8985	+0.0255	517 - 452	45.7488	45.5264	-	-	-	-	-	-	-
Thailand	(Bt)	41.7796	-0.4778	849 - 743	42.2790	41.5990	-	-	-	-	-	-	-

† Rates for May 27. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. Sterling index calculated by the Bank of England. Base average 1990 = 100. Index rebased 1/2/95. Bid, Offer and Mid-rates in both this and the Dollar Spot tables derived from THE WM/REUTERS CLOSING SPOT RATES. Some values are rounded by the F.T. Owing to technical problems at The WM Company on May 28th, the mid rates and forward rates for the US Dollar on May 27th were incorrect. For correct data please contact the FT Readers Enquiry Service: Fax No. 0171 873 3084.
The exchange rates printed in this table are also available on the Internet at http://www.FT.com

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

May 29		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	Day's mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	J.P. Morgan Index
Europe													
Austria	(Sch)	11.9413	-0.0012	386 - 440	12.0120	11.9215	11.9188	2.3	11.8701	2.4	11.6213	2.7	103.0
Belgium	(BFr)	35.0300	+0.009	100 - 500	35.2200	34.9620	34.955	2.6	34.8	2.6	34.06	2.8	103.2
Denmark	(DKr)	6.4615	-0.0028	605 - 625	6.4999	6.4547	6.4497	2.2	6.425	2.3	6.313	2.3	105.2
Finland	(FM)	5.1175	-0.0037	150 - 199	5.1469	5.1139	5.1056	2.8	5.0912	2.8	4.973	2.8	81.7
France	(FFr)	5.7562	+0.0202	549 - 575	5.7660	5.7250	5.7445	2.4	5.7219	2.4	5.6067	2.6	105.3
Germany	(DM)	1.6967	-0.0001	963 - 970	1.7067	1.6937	1.693	2.6	1.6853	2.7	1.6484	2.8	104.2
Greece	(Dr)	272.025	-0.916	950 - 100	274.000	271.770	272.91	-3.9	274.45	-3.6	280.725	-3.2	64.5
Ireland	(I£)	1.5095	-0.0035	085 - 105	1.5113	1.5035	1.5089	0.5	1.5083	0.5	1.505	0.3	-
Italy	(L)	1678.88	-3.39	840 - 891	1690.90	1677.99	1680.56	-1.4	1683.26	-1.1	1685.54	-0.4	75.8
Luxembourg	(LFr)	35.0300	+0.009	100 - 500	35.2200	34.9620	34.955	2.6	34.8	2.6	34.06	2.8	103.2
Netherlands	(Fl)	1.9092	-0.0002	088 - 096	1.9205	1.9063	1.9051	2.6	1.8965	2.7	1.856	2.8	102.7
Norway	(NKr)	7.0672	-0.004	647 - 697	7.1056	7.0470	7.0499	2.9	7.0244	2.4	6.8987	2.4	97.4
Portugal	(Es)	171.850	-0.185	700 - 000	172.650	171.680	171.835	0.1	171.77	0.2	170.48	0.8	94.0
Spain	(Pta)	143.605	-0.055	580 - 630	144.550	143.570	143.605	0.0	143.528	0.2	142.27	0.9	77.2
Sweden	(SKr)	7.7018	+0.0155	980 - 055	7.7329	7.6677	7.6925	1.5	7.6716	1.6	7.5773	1.6	83.3
Switzerland	(SFr)	1.4095	-0.0061	090 - 100	1.4225	1.4070	1.4046	4.1	1.3949	4.1	1.3492	4.3	105.4
UK	(£)	1.6397	+0.0015	392 - 402	1.6408	1.6330	1.6387	0.7	1.6368	0.7	1.6288	0.7	98.4
Ecu	-	1.1471	+0.0004	466 - 476	1.1482	1.1408	1.1485	-1.5	1.1519	-1.7	1.1695	-2.0	-
SDR†	-	0.718571	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	0.9999	-	998 - 999	0.9999	0.9998	-	-	-	-	-	-	-
Brazil	(R$)	1.0742	+0.0014	740 - 743	1.0743	1.0743	-	-	-	-	-	-	-
Canada	(C$)	1.3801	-0.0019	798 - 803	1.3830	1.3772	1.3772	2.6	1.3716	2.5	1.3526	2.0	83.9
Mexico	(New Peso)	7.9115	+0.002	100 - 130	7.9130	7.9080	8.02	-16.5	8.2215	-15.7	9.2185	-16.5	-
USA	($)	-	-	-	-	-	-	-	-	-	-	-	103.1
Pacific/Middle East/Africa													
Australia	(A$)	1.3085	-0.0024	080 - 089	1.3101	1.3055	1.3089	-0.4	1.309	-0.2	1.308	0.0	95.5
Hong Kong	(HK$)	7.7475	+0.0042	470 - 480	7.7480	7.7440	7.7485	-0.2	7.7499	-0.1	7.76	-0.2	-
India	(Rs)	35.7950	-	700 - 200	35.8270	35.7650	35.885	-3.0	36.17	-4.2	33.975	5.1	-
Israel	(Shk)	3.3891	-0.0003	860 - 921	3.3981	3.3855	-	-	-	-	-	-	-
Japan	(Y)	115.970	+0.525	930 - 010	116.550	115.350	115.415	5.7	114.31	5.7	109.41	5.7	132.0
Malaysia	(M$)	2.5108	-0.0002	103 - 113	2.5141	2.5075	2.5131	-1.1	2.5172	-1.0	2.5341	-0.9	-
New Zealand	(NZ$)	1.4481	-0.0007	474 - 489	1.4490	1.4470	1.4489	-0.7	1.4513	-0.9	1.4614	-0.9	-
Philippines	(Peso)	26.3740	+0.002	500 - 980	26.3980	26.3500	-	-	-	-	-	-	-
Saudi Arabia	(SR)	3.7506	-	503 - 508	3.7509	3.7502	3.7508	-0.1	3.7513	-0.1	3.7542	-0.1	-
Singapore	(S$)	1.4303	+0.0006	298 - 308	1.4308	1.4295	1.4286	1.4	1.4245	1.6	1.4026	1.9	-
South Africa	(R)	4.4685	-0.0045	670 - 700	4.4790	4.4660	4.508	-10.6	4.5855	-10.5	4.8895	-9.3	-
South Korea	(Won)	892.500	-	000 - 000	895.300	889.800	-	-	-	-	-	-	-
Taiwan	(T$)	27.8700	-0.01	500 - 900	27.8940	27.8450	27.8707	0.0	27.872	0.0	27.8763	0.0	-
Thailand	(Bt)	25.4800	-0.315	300 - 300	25.8250	25.3840	25.5413	-2.9	25.665	-2.9	26.235	-3.0	-

† SDR rate per $ for May 27. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. UK, Ireland & ECU are quoted in US currency. J.P. Morgan nominal indices May 28; Base average 1990=100. Owing to technical problems at The WM Company on May 28th, mid rates derived by WM/Reuters and published on May 27th were incorrect. For correct data please contact the FT Readers Enquiries Service: Fax No. 0171 873 3084.
The exchange rates printed in this table are also available on the Internet at http://www.FT.com

WORLD INTEREST RATES

MONEY RATES

May 29	Over night	One month	Three mths	Six mths	One year	Lomb. Inter.	Dis. rate	Repo rate
Belgium	3 11/32	3 11/32	3 11/32	3 11/32	3 7/16	6.00	2.50	-
France	3 7/32	3 11/32	3 3/8	3 3/8	3 13/32	3.10	-	4.75
Germany	3	3 1/8	3 1/8	3 1/8	3 1/4	4.50	2.50	3.00
Ireland	6 1/8	6 3/8	6 1/2	6 1/2	6 1/4	-	-	6.75
Italy	6 1/2	6 13/16	6 7/8	6 7/8	6 13/16	8.25	6.75	6.78
Netherlands	3 1/4	3 1/8	3 1/8	3 1/4	3 11/32	-	3.00	2.90
Switzerland	1/2	1 1/4	1 1/4	1 1/4	1 3/8	-	1.00	-
US	5 1/2	5 5/8	5 3/4	5 7/8	6 1/8	-	5.00	-
Japan	1/2	1/2	1/2	1/2	5/8	-	0.50	-
■ $ LIBOR FT London								
Interbank Fixing	-	5 3/4	5 13/16	6	6 1/4	-	-	-
US Dollar CDs	-	5.60	5.63	5.78	6.06	-	-	-
ECU Linked Ds	-	4 1/8	4 1/8	4 1/8	4 1/8	-	-	-
SDR Linked Ds	-	3 1/2	3 1/2	3 1/2	3 5/8	-	-	-

$ LIBOR interbank fixing rates are offered rates for $10m quoted to the market by four reference banks at 11am each working day. The banks are: Bankers Trust, Bank of Tokyo Mitsubishi, Barclays and National Westminster.
Mid rates are shown for the domestic Money Rates, US$ CDs, ECU & SDR Linked Deposits (Ds).

EURO CURRENCY INTEREST RATES

May 29	Short term	7 days notice	One month	Three months	Six months	One year
Belgian Franc	3 1/4 - 3 1/4	3 11/32 - 3 7/32	3 13/32 - 3 9/32	3 13/32 - 3 9/32	3 15/32 - 3 11/32	3 19/32 - 3 15/32
Danish Krone	3 11/16 - 3 1/4	3 9/16 - 3 1/2	3 5/8 - 3 1/2	3 11/16 - 3 9/16	3 25/32 - 3 5/8	3 15/16 - 3 13/16
German Mark	3 1/16 - 2 15/16	3 1/16 - 2 15/16	3 1/16 - 2 15/16	3 1/16 - 2 31/32	3 1/4 - 3	3 7/16 - 3 5/16
Dutch Guilder	3 3/8 - 3 1/8	3 3/8 - 3 1/8	3 3/8 - 3 1/4	3 1/4 - 3 1/8	3 3/8 - 3 1/4	3 15/32 - 3 11/32
French Franc	3 5/8 - 3 3/8	3 11/32 - 3 7/32	3 1/2 - 3 11/32	3 5/8 - 3 15/32	3 21/32 - 3 17/32	3 3/4 - 3 5/8
Portuguese Esc.	8 1/2 - 6	6 1/16 - 5 15/16	5 27/32 - 5 3/4	5 7/8 - 5 27/32	5 15/16 - 5 7/8	5 15/16 - 5 13/16
Spanish Peseta	5 13/32 - 5 5/16	5 13/32 - 5 1/4	5 13/32 - 5 5/16	5 1/4 - 5 3/16	5 3/8 - 5 1/4	5 3/8 - 5 1/4
Sterling	6 5/8 - 6 1/2	6 13/32 - 6 5/16	6 13/32 - 6 3/8	6 5/8 - 6 1/2	6 17/32 - 6 13/16	7 1/16 - 6 15/16
Swiss Franc	3/4 - 5/8	25/32 - 3/4	1 - 29/32	1 3/32 - 1 1/8	1 3/16 - 1 1/16	1 7/16 - 1 5/16
Canadian Dollar	3 3/16 - 2 15/16	3 3/16 - 3	3 1/8 - 3	3 3/16 - 3 1/16	3 7/16 - 3 5/16	4 1/8 - 4
US Dollar	5 15/32 - 5 13/32	5 5/8 - 5 1/2	5 23/32 - 5 19/32	5 13/16 - 5 11/16	6 - 5 7/8	6 1/4 - 6 1/8
Italian Lira	7 1/2 - 6 1/2	6 13/16 - 6 11/16	6 15/16 - 6 7/8	6 29/32 - 6 25/32	6 7/8 - 6 13/16	6 29/32 - 6 5/8
Japanese Yen	9/16 - 15/32	3/8 - 7/16	15/32 - 1/2	5/8 - 17/32	25/32 - 5/8	31/32 - 7/8
Asian $Sing	4 1/4 - 4 1/8	5 - 4 1/2	3 7/8 - 3 3/4	3 13/16 - 3 5/16	3 13/16 - 3 3/16	3 7/8 - 3 3/4

Short term rates are call for the US Dollar and Yen, others: two days' notice.

■ THREE MONTH PIBOR FUTURES (MATIF) Paris Interbank offered rate

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	96.22	96.28	+0.05	96.29	96.22	25,584	63,692
Sep	96.25	96.31	+0.05	96.31	96.24	15,896	62,877
Dec	96.25	96.33	+0.04	96.33	96.25	298	36,798

■ THREE MONTH EUROMARK FUTURES (LIFFE)* DM1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	96.80	96.80	-0.01	96.80	96.79	13902	224943
Sep	96.73	96.72	-0.02	96.73	96.72	14151	215805
Dec	96.58	96.58	-0.01	96.59	96.57	18180	236482
Mar	96.42	96.43	-0.02	96.44	96.41	17520	211990

■ ONE MONTH EUROMARK FUTURES (LIFFE)* DM3m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun		96.83	-0.01			0	1707
Jul		96.82	-			0	390
Aug		96.80	-			0	119
Sep		96.76	-			0	3

■ THREE MONTH EUROLIRA FUTURES (LIFFE)* L1000m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	93.10	93.12	-0.01	93.18	93.08	29678	103219
Sep	93.38	93.39	-0.01	93.44	93.32	27237	91689
Dec	93.52	93.56	-0.01	93.62	93.48	11487	53006
Mar	93.58	93.65	+0.01	93.69	93.57	8128	37685

■ THREE MONTH EURO SWISS FRANC FUTURES (LIFFE) SFr1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	98.71	98.71	+0.05	98.76	98.69	14583	47628
Sep	98.61	98.63	+0.03	98.69	98.61	10073	57879
Dec	98.45	98.43	+0.03	98.49	98.42	5952	30319
Mar	98.29	98.29	+0.04	98.31	98.28	1141	13679

■ THREE MONTH EUROYEN FUTURES (LIFFE) Y100m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun		99.38	+0.03			0	na
Sep		99.17	+0.08			0	na
Dec		98.88	+0.11			0	na

■ THREE MONTH ECU FUTURES (LIFFE) Ecu1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	95.77	95.79	+0.03	95.79	95.77	591	8161
Sep	95.75	95.79	+0.03	95.79	95.75	607	6747
Dec	95.72	95.73	+0.04	95.72	95.71	125	5416
Mar	95.60	95.64	+0.04	95.64	95.60	54	3631

* LIFFE futures also traded on APT

■ EUROLIRA OPTIONS (LIFFE) L1000m points of 100%

Strike Price	CALLS Jun	CALLS Sep	CALLS Dec	PUTS Jun	PUTS Sep	PUTS Dec
9300	0.19	0.53	0.75	0.07	0.14	0.19
9325	0.07	0.35	0.57	0.20	0.21	0.26
9350	0.02	0.22	0.41	0.40	0.33	0.35

Est. vol. total, Calls 12689 Puts 7151. Previous day's open int., Calls 170093 Puts 86346

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

May 29		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	Ecu
Belgium	(BFr)	100	18.45	16.43	4.844	1.891	4792	5.450	20.17	490.6	409.9	21.98	4.024	1.741	3.940	2.855	331.1	2.489
Denmark	(DKr)	54.21	10	8.908	2.626	1.025	2596	2.955	10.94	266.0	222.2	11.92	2.181	0.944	2.136	1.546	179.5	1.349
France	(FFr)	60.86	11.23	10	2.948	1.151	2916	3.317	12.28	298.5	249.5	13.38	2.449	1.060	2.398	1.737	201.5	1.514
Germany	(DM)	20.65	3.808	3.393	1	0.390	989.4	1.125	4.165	101.3	84.64	4.539	0.831	0.359	0.813	0.589	68.35	0.514
Ireland	(I£)	52.88	9.754	8.689	2.561	1	2534	2.882	10.67	259.4	216.8	11.63	2.128	0.921	2.083	1.510	175.1	1.318
Italy	(L)	2.087	0.385	0.343	0.101	0.039	100	0.114	0.421	10.24	8.555	0.459	0.084	0.036	0.082	0.060	6.909	0.052
Netherlands	(Fl)	18.35	3.384	3.015	0.889	0.347	879.2	1	3.702	90.01	75.22	4.034	0.738	0.319	0.723	0.524	60.74	0.457
Norway	(NKr)	49.57	9.143	8.145	2.401	0.937	2375	2.702	10	243.2	203.2	10.90	1.994	0.863	1.953	1.415	164.1	1.234
Portugal	(Es)	20.38	3.760	3.350	0.987	0.386	976.8	1.111	4.112	100	83.56	4.482	0.820	0.355	0.803	0.582	67.48	0.507
Spain	(Pta)	24.39	4.500	4.008	1.182	0.461	1169	1.329	4.921	119.7	100	5.363	0.982	0.425	0.961	0.696	80.76	0.607
Sweden	(SKr)	45.48	8.390	7.474	2.203	0.860	2180	2.479	9.176	223.1	186.5	10	1.830	0.792	1.792	1.298	150.6	1.132
Switzerland	(SFr)	24.85	4.584	4.084	1.204	0.470	1191	1.355	5.014	121.9	101.9	5.464	1	0.433	0.979	0.709	82.28	0.619
UK	(£)	57.44	10.59	9.438	2.782	1.086	2752	3.131	11.59	281.8	235.5	12.63	2.311	1	2.263	1.640	190.2	1.429
Canada	(C$)	25.38	4.682	4.171	1.229	0.480	1216	1.383	5.121	124.5	104.1	5.581	1.021	0.442	1	0.725	84.03	0.632
USA	($)	35.03	6.462	5.756	1.697	0.662	1679	1.909	7.067	171.9	143.6	7.702	1.410	0.610	1.380	1	116.0	0.872
Japan	(Y)	30.21	5.572	4.964	1.463	0.571	1447	1.646	6.094	148.2	123.8	6.641	1.215	0.526	1.190	0.862	100	0.752
Ecu	-	40.18	7.412	6.603	1.946	0.760	1926	2.190	8.107	197.1	164.7	8.835	1.617	0.700	1.583	1.147	133.0	1

Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10; Belgian Franc, Yen, Escudo, Lira and Peseta per 100. Owing to technical problems at The WM Company on May 28th, the rates published on May 27th were incorrect. For correct data please contact the FT Readers Enquiry Service: Fax No. 0171 873 3084.

■ D-MARK FUTURES (IMM) DM 125,000 per DM

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	0.5908	0.5891	-0.0009	0.5914	0.5865	26,277	75,107
Sep	0.5921	0.5925	-0.0018	0.5946	0.5912	828	5,084
Dec	-	0.5967	-	-	0.5960	49	533

■ JAPANESE YEN FUTURES (IMM) Yen 12.5m per Yen 100

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	0.8669	0.8632	-0.0030	0.8682	0.8606	16,047	78,167
Sep	0.8738	0.8740	-0.0037	0.9000	0.8724	860	5,688
Dec	-	0.8879	-	-	0.8879	203	652

■ SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	0.7105	0.7093	-0.0004	0.7124	0.7045	17,315	44,846
Sep	0.7164	0.7169	-0.0006	0.7192	0.7153	520	5,945
Dec	-	0.7243	-	-	0.7240	13	443

■ STERLING FUTURES (IMM) £62,500 per £

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	1.6388	1.6386	-0.0002	1.6400	1.6336	8,803	36,969
Sep	1.6340	1.6346	-0.0012	1.6380	1.6330	248	4,752
Dec	-	1.6310	-	1.6330	1.6310	1	117

UK INTEREST RATES

LONDON MONEY RATES

May 29	Over-night	7 days notice	One month	Three months	Six months	One year
Interbank Sterling	6 5/8 - 5	6 7/16 - 6 1/8	6 1/2 - 6 3/8	6 5/8 - 6 1/2	6 13/16 - 6 11/16	7 1/16 - 6 15/16
Sterling CDs	-	-	6 3/8 - 6 1/4	6 15/32 - 6 13/32	6 21/32 - 6 1/2	6 29/32 - 6 13/16
Treasury Bills	-	-	6 3/8 - 6 7/32	6 15/32 - 6 7/32	-	-
Bank Bills	-	-	6 7/32 - 6 5/32	6 3/8 - 6 1/4	6 5/8 - 6 1/2	-
Local authority deps.	6 1/16 - 6	6 1/8 - 6 1/16	6 13/32 - 6 5/16	6 7/16 - 6 13/32	6 21/32 - 6 19/32	7 - 6 15/16
Discount Market deps	6 1/2 - 6 1/8	6 5/16 - 6 1/4	-	-	-	-

UK clearing bank base lending rate 6¼ per cent from May 6, 1997

	Up to 1 month	1-3 month	3-6 months	6-9 months	9-12 months
Certs of Tax dep. (£100,000)	2½	5½	5	5	4½

Certs of Tax dep. under £100,000 is 2½pc. Deposits withdrawn for cash 1½pc. Ave. tender rate of discount on May 23, 6.1146pc. ECGD fixed rate Stg. Export Finance. Make up day May 30, 1997. Agreed rate for period Jun 25, 1997 to Jul 25, 1997, Scheme III 7.78pc. Reference rate for period May 1, 1997 to May 30, 1997, Schemes IV & V 6.530pc. Finance House Base Rate 6½pc from May 1, 1997

■ THREE MONTH STERLING FUTURES (LIFFE) £500,000 points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	93.35	93.35	-	93.38	93.34	8300	111122
Sep	93.12	93.14	+0.01	93.16	93.11	8834	166289
Dec	92.92	92.96	+0.03	92.97	92.92	5937	96846
Mar	92.80	92.82	+0.03	92.84	92.79	5510	60788
Jun	92.69	92.72	+0.03	92.74	92.69	3162	46752

Also traded on APT. All Open interest figs. are for previous day.

■ SHORT STERLING OPTIONS (LIFFE) £500,000 points of 100%

Strike Price	CALLS Jun	CALLS Sep	CALLS Dec	PUTS Jun	PUTS Sep	PUTS Dec
9325	0.12	0.06	0.06	0.02	0.19	0.37
9350	0.01	0.02	0.03	0.16	0.38	0.57
9375	0	0	0.01	0.40	0.61	0.80

Est. vol. total, Calls 2660 Puts 5060. Previous day's open int., Calls 172226 Puts 172594

EMS EUROPEAN CURRENCY UNIT RATES

May 29	Ecu cen. rates	Rate against Ecu	Change on day	% +/- from cen. rate	% spread v weakest	Div. ind.
Ireland	0.798709	0.762211	+0.001341	-4.57	7.23	31
Portugal	197.398	198.039	+0.131	0.32	2.00	-2
Finland	5.85424	5.89982	+0.00108	0.76	1.54	-5
Spain	163.826	165.713	+0.127	1.15	1.18	-8
Netherlands	2.16979	2.20092	+0.00015	1.43	0.88	-11
Denmark	7.34555	7.45190	+0.0016	1.45	0.87	-10
Germany	1.92573	1.95591	+0.00006	1.57	0.75	-15
Austria	13.5485	13.7872	+0.0016	1.61	0.70	-12
Italy	1906.48	1937.60	+3.56	1.63	0.68	-12
Belgium	39.7191	40.3795	+0.0034	1.66	0.65	-12
France	6.45863	6.60697	+0.00287	2.33	0.00	-20
NON ERM MEMBERS						
Greece	295.269	313.337	+0.239	6.12	-3.57	-
UK	0.793103	0.701450	-0.001806	-11.56	15.70	-

Ecu central rates set by the European Commission. Currencies are in descending relative strength. Percentage changes are for Ecu; a positive change denotes a weak currency. Divergence shows the ratio between two spreads: the percentage difference between the actual market and Ecu central rates for a currency, and the maximum permitted percentage deviation of the currency's market rate from its Ecu central rate. 17/9/92: Sterling suspended from ERM. Adjustment calculated by the Financial Times.

■ PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

Strike Price	CALLS Jun	CALLS Jul	CALLS Aug	PUTS Jun	PUTS Jul	PUTS Aug
1.620	1.73	2.36	2.87	0.74	1.47	2.10
1.630	1.16	1.82	2.40	1.18	1.91	2.53
1.640	0.69	1.39	1.95	1.76	2.51	3.10

Previous day's vol., Calls 89 Puts 267. Prev. day's open int., Calls 34,488 Puts 36,186

■ PHILADELPHIA SE D-MARK/$ OPTIONS DM62,500 ($ per DM)

Strike Price	CALLS Jun	CALLS Jul	CALLS Aug	PUTS Jun	PUTS Jul	PUTS Aug
0.585	0.74	1.08	1.38	0.28	0.50	0.70
0.590	0.45	0.80	1.12	0.48	0.72	0.92
0.595	0.26	0.57	0.88	0.79	1.00	1.15

Previous day's vol., Calls 1,532 Puts 889. Prev. day's open int., Calls 24,298 Puts 33,243

■ THREE MONTH EURODOLLAR (IMM) $1m points of 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	94.17	94.17	+2.24	94.17	94.16	54,856	423,243
Sep	93.92	93.94	-	93.94	93.92	114,252	471,810
Dec	93.65	93.67	-	93.68	93.66	128,299	373,792

■ US TREASURY BILL FUTURES (IMM) $1m per 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	94.83	94.86	-	94.86	94.83	445	4,475
Sep	-	94.53	-	94.56	-	328	5,506

All Open interest figs. are for previous day

■ EUROMARK OPTIONS (LIFFE) DM1m points of 100%

Strike Price	CALLS Jun	CALLS Jul	CALLS Aug	CALLS Sep	PUTS Jun	PUTS Jul	PUTS Aug	PUTS Sep
9675	0.06	0.03	0.04	0.06	0.01	0.06	0.07	0.09
9700	0	0.01	0.01	0.01	0.20	0.29	0.29	0.29
9725	0	0	0	0	0.45	0.53	0.53	0.53

Est. vol. total, Calls 1155 Puts 3800. Previous day's open int., Calls 480790 Puts 296932

■ EURO SWISS FRANC OPTIONS (LIFFE) SFr 1m points of 100%

Strike Price	CALLS Jun	CALLS Sep	CALLS Dec	PUTS Jun	PUTS Sep	PUTS Dec
9875	0.05	0.11	0.10	0.09	0.23	0.42
9900	0.02	0.03	0.04	0.31	0.40	0.61

Est. vol. total, Calls 500 Puts 500. Previous day's open int., Calls 3126 Puts 1990

BASE LENDING RATES

	%		%		%
Adam & Company	6.25	Duncan Lawrie	6.25	●Singer & Friedlander	6.25
Allied Irish Bank (GB)	6.25	Exeter Bank Limited	7.25	●Smith & Williamson Secs	6.25
●Henry Ansbacher	6.25	Financial & Gen Bank	7.00	Scottish Widows Bank	6.00
Bank of Baroda	6.25	●Robert Fleming & Co	6.25	TSB	6.25
Banco Bilbao Vizcaya	6.25	●Guinness Mahon	6.25	United Bank of Kuwait	6.25
Bank of Cyprus	6.25	Habib Bank AG Zurich	6.25	Unity Trust Bank Plc	6.00
Bank of Ireland	6.25	●Hambros Bank	6.25	Western Trust	6.25
Bank of India	6.00	Heritable & Gen Inv Bk	6.25	Whiteaway Laidlaw	6.25
Bank of Scotland	6.25	C. Hoare & Co	6.25	Yorkshire Bank	6.25
Barclays Bank	6.25	Hongkong & Shanghai	6.25		
Brit Bk of Mid East	6.25	Investec Bank (UK) Ltd	6.25	● Members of London Investment Banking Association	
●Brown Shipley & Co Ltd	6.25	Julian Hodge Bank	6.25	* In administration	
Citibank NA	6.25	●Leopold Joseph & Sons	6.25		
Clydesdale Bank	6.25	Lloyds Bank	6.25		
The Co-operative Bank	6.25	Midland Bank	6.25		
Coutts & Co	6.25	NatWestminster	6.25		
Cyprus Popular Bank	6.25	●Rea Brothers	6.25		
		Royal Bk of Scotland	6.25		

COMMODITIES AND AGRICULTURE

Active first day for Pulpex

MARKETS REPORT

By Gary Mead

London's first day of business in pulp futures was hailed as a success yesterday, with more than 50 contracts traded.

Mr Xavier Bruckert, director of marketing with OMLX, the London-based securities and derivatives exchange, said the electronically-traded Pulpex contract had got off to an auspicious start.

A total of 42 contracts were traded in the September future and 10 in the other available date, December. September's opening price was $550 a tonne; it initially fell to $544 before finally closing the day at $547. "We expected this market to start slowly but the volume will increase over the next three months," Mr Bruckert added.

Pulpex will be operating in direct competition with a similar pulp contract on Finland's Futures and Options Exchange in Helsinki. The Finnish venture, launched in February, has so far failed to achieve the volumes it anticipated. In the first three months of operation it traded less than 100 contracts – against a projected 20,000 for a full year.

OMLX, operated by OM group of Sweden, said three aspects of the first day were particularly auspicious – a very tight spread of between $3 and $6; the relatively high volume traded; and the fact that there was now a transparent mechanism for price discovery.

"Just before Pulpex started trading we asked various interested parties what they thought the September price might be at 3.30pm," said Mr Bruckert. "The guesses ranged from $530 to $640. We now have clear pricing."

The ferocious price rally in coffee futures continued unabated yesterday. In New York, the price for the benchmark July contract broke through 300 cents a pound in early trading, reaching a peak of $3.18.

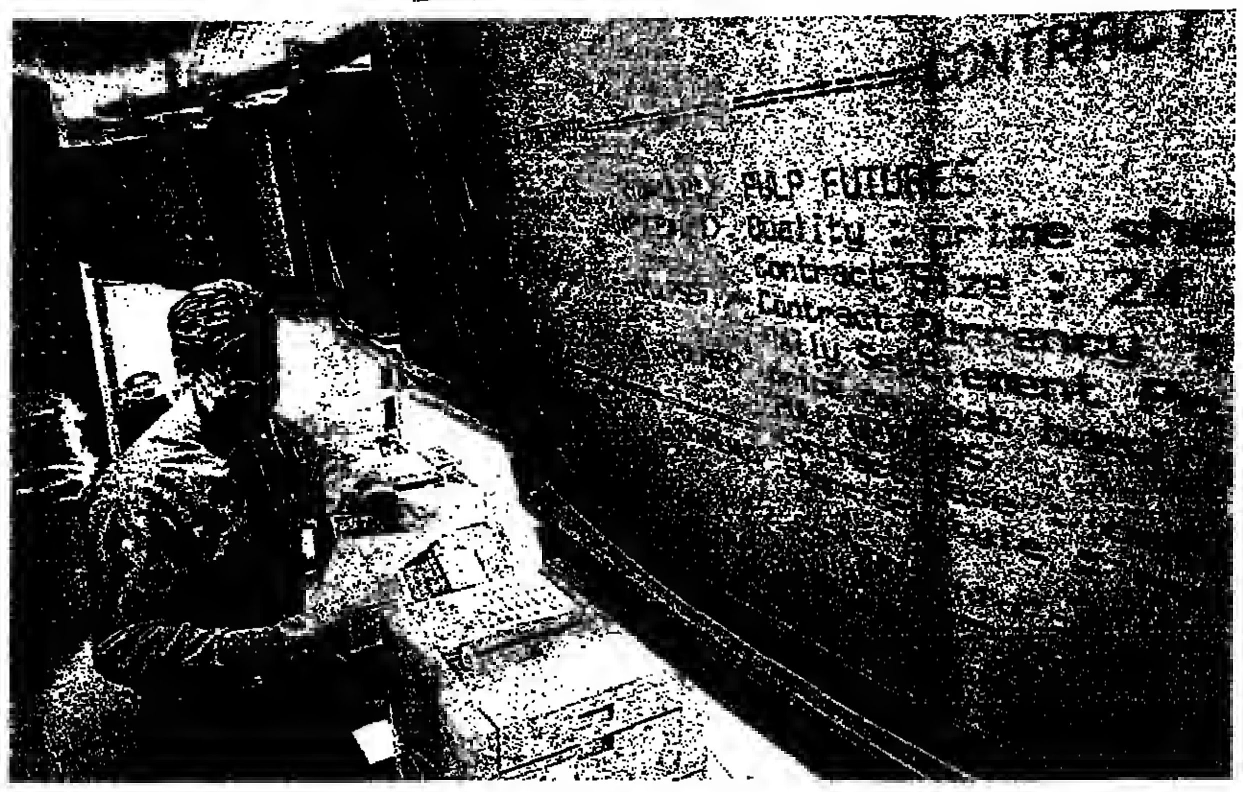
The Coffee, Sugar and Cocoa Exchange in New York trades arabica, the top class beans – and it has been driving the rally in the futures markets which set the price for world coffee.

"It's really hairy out there and not for the faint-hearted," said Ms Judith Ganes, coffee specialist with Merrill Lynch in New York. "A lot of orders are going unfilled and there's no sign of this run abating, though I wouldn't want to use the word panic."

On the London International Financial Futures Exchange, the July price shot up by almost 20 per cent at one stage, to $2,670 a tonne. The robusta contract – lower grade coffee used in instants – closed at $2,600, a gain of $342 on the day.

On both markets the speculative buying was fuelled by continuing twin anxieties – with global stocks being at their lowest for 20 years as the Brazilian frost season approaches.

Ms Ganes pointed out that the last time arabica prices reached current levels was in 1977, when it peaked at 337.50 cents a pound, which today in inflation-adjusted terms would be 519 cents. "If we see those levels being reached, you can just pick your own numbers from thereafter," she added.



Colin Beere

The Pulpex broking desk at the OMLX exchange: off to a successful start with more than 50 contracts traded

Palladium retreats on end of strike

By Kenneth Gooding and Gary Mead

Palladium's price fell after news that a wildcat strike at Rustenberg's mine in South Africa had ended and speculators took some profits after the recent sharp rise. After being fixed in London yesterday morning at $196.50 a troy ounce, the highest since 1989, palladium closed at $190.25, down $7 from Wednesday's close.

However, analysts said the shortage of physical palladium caused by the failure of Russia, the biggest producer, to export any of the metal this year was still being widely felt.

The cost of borrowing palladium for one month was still more than 40 per cent of the cost of the metal, compared with the usual 2 per cent to 3 per cent. The cost of borrowing platinum for the same period also moved up sharply yesterday to an unprecedented 40 per cent. Platinum closed in London at $411 an ounce, up $9.30.

Russia supplies about 70 per cent of the western world's palladium needs and 25 per cent of the platinum requirement. Both metals are essential in some electronic components and catalysts, particularly car anti-pollution catalysts.

A team from Almaz, which is responsible for the export of Russia's platinum group metals, and a representative from Russia's central bank are due to visit Japan, the biggest consumer of platinum and palladium, for two weeks from June 9. Bureaucratic hold-ups in Russia have prevented any export licences for platinum and palladium being issued so far this year.

Japanese customers are likely to read the Russians the riot act. "I'm sure they're looking forward to eating sushi 14 times but this has become a serious problem," said one trader. "It is no longer simply a market problem, but a very serious industrial problem."

Russia has capitalised on strong demand for portable electronic equipment such as mobile telephones and laptop computers, which use multi-layer capacitors incorporating palladium, by digging deep into its stockpiles.

Johnson Matthey, the leading platinum and palladium marketing group, says that in the past two years Russia has sold more than 5m ounces of palladium, worth about $2bn, from stocks.

Canberra liberalises mineral exports

The Australian senate yesterday abolished mineral export controls implemented in the 1970s, Reuter reports from Canberra.

Mr Warwick Parer, Australia's resources minister, said the move promised increased mineral exports.

Mr Parer said the 35-34 senate vote in favour of removing the export controls on bauxite and alumina, mineral sands, coal and liquefied natural gas, had removed a "major hurdle to investment and jobs in Australia".

The controls were introduced in 1973 to allow the then government to limit Australian exports of minerals, particularly coal, when it believed a negotiated sale price was too low. It had hoped to boost prices in this manner.

Mr Parer said, however, that the very threat of price controls over the years had encouraged customers to diversify to other suppliers, such as Canada and the US.

Australia has retained export controls only over uranium, which must be regulated to meet international safeguards.

Mr Parer said that South Korea's Pohang Iron and Steel company had told him last year that export controls had forced it to diversify.

The minister quoted the company's chief purchasing officer as saying that but for the controls "we would be importing from Australia about 70 per cent or 80 per cent of the material supplied for out steel mills, rather than 50 per cent".

For controlled resources, Taiwan limited imports from Australia to 35 per cent, Mr Parer said.

"Underlying that is the uncertainty that exists because of the very existence of these export controls," he said.

Macquarie upgrades forecast of Chinese zinc exports

By Kenneth Gooding, Mining Correspondent

Zinc exports from China are likely to be bigger than the market anticipates, suggest analysts at Macquarie Equities, part of the Australian banking group, after meetings with two Chinese metals groups. "China remains an important factor in all the base metal markets due to its relative unpredictability," Macquarie points out.

Mr Jim Lennon and Mr Adam Rowley, met China National Nonferrous Metals Corporation and China National Nonferrous Metals Import and Export Corporation. They suggest China will boost zinc exports from government stocks after recent price rises. Exports in the first four months of 1997 were 162,145 tonnes, up 131 per cent on the same period in 1996 and compared with 226,777 tonnes for all last year.

Macquarie had been predicting China would export 300,000 tonnes of zinc this year, but has lifted that estimate to 400,000 tonnes.

Consequently, it is not raising its previous zinc price forecast for 1997 from 56.5 cents a pound ($1,245 a tonne) even though the price is at present about 61 cents.

Macquarie also suggests China's government stockpiling agency will be absent from the copper market as a buyer "so long as the price is above $1 a pound ($2,204 a tonne) on the London Metal Exchange and the Chinese domestic price premium is subdued". Therefore, China's imports of copper cathodes are likely to be 150,000 tonnes this year against 250,000 tonnes in 1996.

"We are not changing our forecast of a weaker copper price performance in the second half," the Macquarie analysts add.

As for lead, China's exports are falling as its output plunges. First-quarter lead output was 22 per cent lower than in the last quarter of 1996, and in the first four months of 1997 lead exports fell by 19.4 per cent compared with the same period of 1996.

China's net imports of aluminium are likely to be lower in 1997, Macquarie says, because large stocks have been built up. Exports of unwrought aluminium were 54,137 tonnes in the first four months of 1997, up 57 per cent year-on-year, while imports fell 14 per cent to 102,436 tonnes.

Following a build up in nickel stocks of nearly 9,000 tonnes in 1996, China's biggest producer, Jinchuan has slashed production (Chinese output was down 37.5 per cent to 6,134 tonnes in the first quarter) and started exporting. "Nickel imports from the west will be substantially lower this year," Macquarie adds.

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE

(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1609.5-10.5	1626-27
Previous	1625.5-6.5	1639-40
High/low		1645/1621
AM Official	1611-12	1629.5-30.0
Kerb close		1621-22
Open int.	264,854	
Total daily turnover	82,405	

■ ALUMINIUM ALLOY ($ per tonne)

Close	1470-80	1495-500
Previous	1478-83	1501-3
High/low		1500/1490
AM Official	1470-75	1496-7
Kerb close		1495-500
Open int.	5,293	
Total daily turnover	632	

■ LEAD ($ per tonne)

Close	626.5-27.5	635-36
Previous	636-7	644.5-5.0
High/low	629	640/634
AM Official	629-9.5	637-8
Kerb close		640-41
Open int.	35,335	
Total daily turnover	6,362	

■ NICKEL ($ per tonne)

Close	7160-70	7270-75
Previous	7185-90	7295-300
High/low		7320/7240
AM Official	7190-91	7303-4
Kerb close		7270-80
Open int.	50,760	
Total daily turnover	24,447	

■ TIN ($ per tonne)

Close	5620-30	5575-80
Previous	5635-40	5680-90
High/low		5670/5580
AM Official	5552-4	5605-10
Kerb close		5585-90
Open int.	15,490	
Total daily turnover	5,275	

■ ZINC, special high grade ($ per tonne)

Close	1323-24	1345-46
Previous	1342-3	1364-5
High/low		1361/1342
AM Official	1336.5-7.5	1358-8.5
Kerb close		1354-55
Open int.	91,050	
Total daily turnover	20,830	

■ COPPER, grade A ($ per tonne)

Close	2595-97	2525-26
Previous	2602-4	2528-30
High/low	2608	2537/2518
AM Official	2607-8	2531-1.5
Kerb close		2528-29
Open int.	136,530	
Total daily turnover	72,756	

■ LME AM Official £/$ rate: 1.6369
LME Closing £/$ rate: 1.6368

Spot: 1.6407 3 mths: 1.6376 6 mths: 1.6350 9 mths: 1.6324

■ HIGH GRADE COPPER (COMEX)

	Sett price	Day's change	High	Low	Vol	Open int
Jun	118.90	-0.10	119.50	118.10	810	3,728
Jul	119.25	-0.20	119.75	118.50	6,229	34,632
Aug	116.05	+0.20	116.30	115.70	268	1,947
Sep	114.85	+0.39	115.30	114.20	643	6,933
Oct	112.75	-0.50	113.00	113.00	14	1,084
Nov	110.95	+0.50	109.90	109.90	26	1,171
Total					9,825	81,108

PRECIOUS METALS

■ LONDON BULLION MARKET

(Prices supplied by N M Rothschild)

Gold(Troy oz)	$ price	£ equiv	SFr equiv
Close	343.90-344.40		
Opening	345.00-345.30		
Morning fix	345.70	211.437	490.721
Afternoon fix	343.90	209.695	484.383
Day's High	345.80-346.10		
Day's Low	343.80-344.10		
Previous close	343.90-344.40		

Loco Ldn Mean Gold Lending Rates (Vs US$)

1 month ....4.86 6 months 4.80
2 months ....4.85 12 months 4.63
3 months 4.83

Silver Fix	p/troy oz.	US cts equiv.
Spot	288.20	472.25
3 months	292.40	478.15
6 months	296.60	484.15
1 year	305.65	497.40

Gold Coins	$ price	£ equiv.
Krugerrand	345-347	210-212
Maple Leaf	-	-
New Sovereign	80-83	49-51

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Jun	345.9	+0.6	346.5	343.9	48,083	17,080
Aug	348.6	+1.0	349.2	346.5	35,502	61,683
Oct	351.2	+0.9	351.7	349.6	154	7,167
Dec	353.9	+0.9	354.3	352.0	5,148	26,729
Feb	356.6	+0.9	354.8	354.8	801	7,092
Apr	359.2	+0.9	355.7	355.5	30	3,833
Total					89,764	162,658

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

Jul	410.3	-0.2	420.5	406.5	5,433	14,733
Oct	403.8	+2.3	410.7	397.0	326	4,700
Jan	398.3	+2.3	405.0	402.5	24	1,219
Apr	398.3	+2.3	-	-	5	20
Total					5,783	20,672

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

Jun	193.25	-9.40	205.00	185.00	1,339	2,846
Sep	185.00	+9.00	185.00	182.00	672	6,268
Dec	182.50	+8.00	182.50	180.00	5	439
Total					2,011	9,448

■ SILVER COMEX (5,000 Troy oz.; Cents/troy oz.)

Jul	483.8	+10.8	484.5	471.0	13,472	59,720
Sep	488.3	+10.4	488.5	476.0	300	6,392
Dec	495.1	+10.0	495.0	483.5	154	7,477
Jan	497.2	+9.8	-	-	-	17
Mar	502.3	+9.6	492.5	492.5	5	7,883
May	507.0	+9.3	503.0	503.0	20	2,709
Total					13,970	90,611

ENERGY

■ CRUDE OIL NYMEX (1,000 barrels. $/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Jul	21.16	+0.39	21.10	20.57	39,919	104k
Aug	21.24	+0.34	21.24	20.73	15,565	51,856
Sep	21.09	+0.21	21.12	20.72	6,423	30,684
Oct	21.01	+0.20	21.01	20.70	7,284	19,124
Nov	20.96	+0.23	20.96	20.63	3,813	17,225
Dec	20.90	+0.26	20.90	20.50	5,449	35,633
Total					86,829	406,027

■ CRUDE OIL IPE ($/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Jul	19.56	+0.32	19.63	19.10	17,655	69,707
Aug	19.66	+0.28	10.73	19.23	7,920	39,522
Sep	19.78	+0.31	19.78	19.34	619	11,198
Oct	19.81	+0.30	19.81	19.40	388	8,470
Nov	19.70	+0.18	19.70	19.70	34	6,230
Dec	10.59	+0.11	19.59	19.37	1,298	11,967
Total					n/a	n/a

■ HEATING OIL NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Vol	Open int
Jun	56.20	+0.81	56.20	54.80	9,997	12,321
Jul	56.30	+0.99	56.40	54.80	9,039	38,834
Aug	56.70	+0.94	56.70	55.30	2,018	18,409
Sep	57.30	+0.79	57.40	56.45	857	9,545
Oct	58.10	+0.84	58.10	57.25	1,534	8,757
Nov	58.80	+0.84	59.00	57.95	580	7,951
Total					26,590	131,454

■ GAS OIL IPE ($/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Jun	174.25	+1.25	174.50	171.75	5,371	22,320
Jul	175.25	+2.00	175.25	172.25	3,670	13,947
Aug	177.00	+2.00	177.00	174.25	1,203	7,700
Sep	178.75	+1.75	176.75	176.00	782	4,074
Oct	180.50	+1.75	179.50	178.00	579	4,932
Nov	181.75	+1.75	-	-	192	1,879
Total					12,396	87,334

■ NATURAL GAS NYMEX (10,000 mmBtu.; $/mmBtu.)

	Latest price	Day's change	High	Low	Vol	Open int
Jul	2.265	-0.051	2.315	2.250	16,362	41,812
Aug	2.265	-0.048	2.305	2.260	6,853	22,285
Sep	2.245	-0.041	2.280	2.240	2,632	17,949
Oct	2.250	-0.036	2.275	2.240	1,719	19,468
Nov	2.364	-0.028	2.380	2.350	1,023	8,175
Dec	2.465	-0.030	2.490	2.455	1,210	12,297
Total					77,574	201,877

■ UNLEADED GASOLINE
NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Vol	Open int
Jun	65.65	-0.15	66.50	64.70	15,629	16,004
Jul	63.80	+0.75	63.80	62.25	13,129	39,498
Aug	62.40	+0.71	62.40	61.10	3,243	10,403
Sep	61.30	+0.81	61.30	60.30	458	4,969
Oct	59.20	+0.66	59.20	58.50	236	3,275
Nov	58.25	+0.51	58.25	58.25	404	1,768
Total					33,373	84,027

GRAINS AND OIL SEEDS

■ WHEAT LIFFE (100 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	86.20	-1.30	88.25	85.50	213	1,400
Sep	90.15	-0.85	90.25	90.25	25	157
Nov	92.15	-0.85	92.50	92.15	350	3,562
Jan	94.15	-0.85	94.50	94.25	112	1,645
Mar	96.15	-0.85	96.50	96.25	66	797
May	98.15	-0.85	98.50	98.25	61	399
Total					869	7,960

■ WHEAT CBT (5,000bu min; cents/60lb bushel)

Jul	358.50	-8.5	374.50	358.00	19,181	47,176
Sep	366.50	-6.25	381.00	366.00	4,681	15,061
Dec	377.50	-7.25	392.50	377.00	3,201	17,134
Mar	380.00	-7	392.00	380.00	509	1,787
May	373.00	-2	376.25	376.25	38	40
Jul	368.00	-	368.00	368.00	61	507
Total					27,937	81,734

■ MAIZE CBT (5,000 bu min; cents/56lb bushel)

Jul	269.25	-0.25	274.50	268.25	41,370	119,994
Sep	255.75	-1.75	260.25	255.00	3,639	30,486
Dec	253.25	-2	258.50	253.00	20,073	112,058
Mar	259.00	-2.25	264.00	258.75	1,428	12,695
May	263.00	-2	267.00	262.50	546	1,262
Jul	267.00	-2	271.00	267.00	262	3,369
Total					67,423	283,274

■ BARLEY LIFFE (100 tonnes; £ per tonne)

Sep	88.00	-0.50	-	-	-	29
Nov	00.00	-0.50	00.00	00.00	13	1,105
Jan	92.00	-0.50	92.00	92.00	10	152
Mar	94.00	-0.00	94.00	94.00	-	16
May	96.00	-0.50	-	-	-	-
Total					27	1,302

■ SOYABEANS CBT (5,000bu min; cents/60lb bushel)

Jul	869.50	+20	879.50	852.00	38,341	92,217
Aug	822.75	+16.75	836.00	806.75	7,749	24,035
Sep	727.50	+14.5	737.00	717.00	1,652	6,864
Nov	682.50	+12.75	689.50	672.25	15,123	30,824
Jan	684.50	+10.5	690.00	677.00	898	6,531
Mar	689.00	+13.5	690.00	681.50	277	1,273
Total					64,242	186,340

■ SOYABEAN OIL CBT (60,000lbs; cents/lb)

Jul	23.88	-0.08	24.27	23.77	14,743	50,174
Aug	24.00	-0.09	24.65	23.98	3,896	15,306
Sep	24.17	-0.1	24.55	24.09	1,125	9,262
Oct	24.18	-0.07	24.55	24.12	935	9,099
Dec	24.32	-0.13	24.70	24.20	3,543	17,928
Jan	24.43	-0.22	24.72	24.65	83	1,289
Total					24,347	103,440

■ SOYABEAN MEAL CBT (100 tons; $/ton)

Jul	288.1	+7.8	290.3	281.0	14,169	48,124
Aug	268.6	+7	271.0	261.7	4,718	16,068
Sep	246.7	+5.2	248.5	243.0	1,432	10,174
Oct	231.2	+3.7	233.0	229.5	730	10,562
Dec	222.7	+3.7	224.0	218.0	3,104	20,352
Jan	219.0	+3.5	220.0	214.7	170	2,171
Total					25,013	110,530

■ POTATOES LIFFE (20 tonnes; £ per tonne)

Jan	30.0	-	-	-	-	-
Nov	58.0	-	-	-	-	11
Mar	108.5	-	-	-	-	-
Apr	119.0	-1.0	120.0	117.0	27	862
May	129.0	-	-	-	-	-
Total					27	873

■ FREIGHT (BIFFEX) LIFFE ($10/index point)

May	1287	-	-	-	-	538
Jun	1230	-	1207	1200	11	449
Jul	1130	-4	1130	1122	158	1,086
Oct	1310	-	1310	1310	13	540
Jan	1340	-	-	-	-	57
Apr	1375	-	-	-	-	-
Total					182	2,670

	Close	Prev
BR	1285	1289

FUTURES DATA
All futures data supplied by CMS.

Wool
Demand for Australian wool developed strongly enough for the Eastern Market Indicator to rise 12 cents to a new seasonal record of 700 Australian cents yesterday. This followed a week's break in auctions and a firmer move at the end of the previous week. Japan was the main buyer, and strength in the yen may have played a part in willingness to pay more. Western Europe followed less keenly, with holidays taking effect this week and much talk of price resistance at the retail end. With New Zealand and South Africa both tending firmer last week, there is wider recognition of a well-based tendency developing. Australian stockpile sales still supplement current production, but greater flexibility in disposal and steady decline in the remainder yet to be sold continue to limit this as a holding factor.

SOFTS

■ COCOA LIFFE (10 tonnes; £/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
May	1012	+12	1008	1008	1	13
Jul	1032	+12	1039	1018	1,562	27,767
Sep	1648	+10	1048	1039	830	15,618
Dec	1040	+8	1041	1030	1,074	28,882
Mar	1050	+8	1050	1040	1,119	31,817
May	1063	+10	1064	1053	402	16,173
Total					5,216	141,358

■ COCOA CSCE (10 tonnes; $/tonnes)

Jul	1498	+32	1502	1467	4,958	28,935
Sep	1528	+32	1537	1498	440	13,916
Dec	1563	+34	1564	1530	262	18,481
Mar	1585	+31	1590	1554	75	20,999
May	1603	+27	1606	1583	55	8,534
Jul	1623	+27	1600	1598	1	323
Total					5,788	98,443

■ COCOA (ICCO) (SDR's/tonne)

May 29	Price	Prev. day
Daily	1141.15	1133.99

■ COFFEE LIFFE (5 tonnes; $/tonne)

May	2500	+338	2560	2330	74	142
Jul	2600	+342	2670	2360	7,700	24,390
Sep	2630	+342	2700	2394	7,200	19,700
Nov	2639	+344	2709	2400	3,100	7,733
Jan	2619	+344	2613	2495	217	2,610
Mar	2294	+44	-	-	-	343
Total					18,222	54,946

■ COFFEE 'C' CSCE (37,500lbs; cents/lbs)

Jul	314.80	+19.25	318.00	302.00	7,979	14,862
Sep	273.80	+17.10	277.00	285.00	3,796	7,765
Dec	228.80	+14.25	220.55	220.55	869	5,022
Mar	205.80	+10.25	201.55	201.55	523	2,141
May	196.80	+12.80	-	180.00	67	440
Jul	187.55	+8.00	187.55	187.55	13	132
Total					13,237	30,484

■ COFFEE (ICO) (US cents/pound)

May 28		Prev. day
Comp. daily	207.60	195.02
15 day average	181.06	177.89

■ WHITE SUGAR LIFFE (50 tonnes; $/tonne)

Aug	323.9	+2.7	323.9	321.4	1,830	13,425
Oct	313.6	+3.1	313.0	310.5	839	6,980
Dec	310.3	+2.7	309.5	308.0	623	2,153
Mar	309.4	+1.8	308.2	307.1	564	1,645
May	308.6	+2.0	307.7	306.1	118	689
Aug	307.3	+1.4	306.0	305.8	220	648
Total					4,407	23,837

■ SUGAR '11' CSCE (112,000lbs; cents/lbs)

Jul	11.21	+0.03	11.22	11.15	7,262	74,330
Oct	11.01	+0.06	11.02	10.95	4,537	44,375
Mar	10.95	+0.05	10.98	10.89	1,501	25,934
May	10.87	+0.07	10.87	10.80	129	6,590
Jul	10.80	+0.07	10.80	10.73	195	2,779
Oct	10.70	+0.06	-	10.51	-	560
Total					13,829	156,128

■ COTTON NYCE (50,000lbs; cents/lbs)

Jul	73.56	+0.35	73.65	73.05	5,608	36,023
Oct	74.90	+0.26	75.20	74.65	287	4,230
Dec	75.61	+0.29	75.65	75.25	1,768	28,030
Mar	76.83	+0.30	76.90	76.50	59	3,860
May	77.40	+0.15	77.15	77.00	15	987
Jul	77.80	+0.27	77.70	77.70	31	347
Total					7,916	73,882

■ ORANGE JUICE NYCE (15,000lbs; cents/lbs)

Jul	77.29	-1.05	78.50	77.00	2,379	15,817
Sep	79.65	-0.85	80.80	79.50	539	7,315
Nov	82.55	-0.85	82.70	82.50	127	3,547
Jan	85.25	-0.75	88.50	85.20	42	1,578
Mar	87.75	-0.80	88.75	88.00	48	1,108
May	89.25	-1.55	-	92.00	3	276
Total					3,143	29,768

VOLUME DATA
Open interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME, CSCE and IPE Crude Oil are one day in arrears. Volume & Open interest totals are for all traded months.

INDICES

■ Reuters (Base: 18/9/31 = 100)

May 29	May 28	month ago	year ago
2023.4	2000.0	1975.1	2116.7

■ CRB Futures (Base: 1967 = 100)

May 28	May 27	month ago	year ago
252.36	250.72		

■ GSCI Spot (Base: 1970 = 100)

May 28	May 27	month ago	year ago
198.62	198.41	192.71	208.18

LME WAREHOUSE STOCKS (tonnes)

Aluminium	-3,700	to	744,850
Aluminium alloy	+160	to	91,820
Copper	-3,560	to	133,035
Lead	-250	to	118,525
Nickel	+102	to	49,672
Zinc	+2,225	to	421,700
Tin	+400	to	11,790

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

	Sett Price	Day's change	High	Low	Vol	Open int
Jun	65.350	-0.050	65.725	65.225	8,496	24,329
Aug	65.175	-0.250	65.750	65.150	8,283	41,554
Oct	68.375	-0.250	68.750	68.350	2,374	19,228
Dec	70.775	-0.300	71.200	70.750	897	10,266
Feb	71.175	-0.100	71.500	71.150	425	5,109
Apr	72.975	-0.025	73.250	72.950	80	2,084
Total					18,697	102,709

■ LEAN HOGS CME (40,000lbs; cents/lbs)

Jun	80.050	+0.200	80.200	79.425	6,077	9,593
Jul	80.325	+0.375	80.675	79.300	5,511	10,945
Aug	78.650	+0.800	78.775	77.300	3,248	7,983
Oct	70.750	+0.800	70.950	69.800	957	5,925
Dec	68.250	+0.400	68.350	67.400	524	3,634
Feb	67.425	+0.075	67.650	67.000	106	1,574
Total					16,858	40,639

■ PORK BELLIES CME (40,000lbs; cents/lbs)

Jul	86.100	-2.800	87.450	85.900	1,386	6,360
Aug	85.950	-2.075	87.200	85.500	286	1,839
Feb	75.900	+0.800	75.700	74.250	80	424
Mar	74.900	+1.500	74.400	74.400	13	15
Total					1,765	8,639

LONDON TRADED OPTIONS

Strike price $ tonne	Calls		Puts	
■ ALUMINIUM (99.7%) LME	Jun	Sep	Jun	Sep
1500	113	133	-	12
1600	20	65	7	42
1700	-	25	87	100
■ COPPER (Grade A) LME	Jun	Sep	Jun	Sep
2400	204	149	-	49
2500	106	93	2	92
2600	30	53	26	151
■ COFFEE LIFFE	Jul	Sep	Jul	Sep
2000	608	679	8	49
2050	561	642	11	62
2100	515	607	15	77
■ COCOA LIFFE	Jul	Sep	Jul	Sep
1000	42	78	10	30
1025	26	64	19	41
1050	15	51	33	53
■ BRENT CRUDE IPE	Jun	Jul	Jun	Jul
1900	65	-	27	-
1950	32	-	46	-
2000	16	57	-	-

LONDON SPOT MARKETS

■ CRUDE OIL FOB (per barrel)

		+or-
Dubai	$19.16-9.30	+0.485
Brent Blend (dated)	$19.34-9.30	+0.380
Brent Blend (Jul)	$18.59-9.61	+0.410
W.T.I.	$21.23-1.25z	+0.430

■ OIL PRODUCTS NWE prompt delivery CIF (tonne)

Premium Gasoline	$218-220	+1
Gas Oil	$175-176	+1
Heavy Fuel Oil	$80-82	+1
Naphtha	$185-188	+1
Jet fuel	$192-193	+1
Diesel	$180-182	+1

■ NATURAL GAS (Pence/therm)

Bacton (Jun)	11.1-11.25	-0.125

Petroleum Argus. Tel. London (0171) 359 8792

IPE (Jun)	11.260	+0.060

■ OTHER

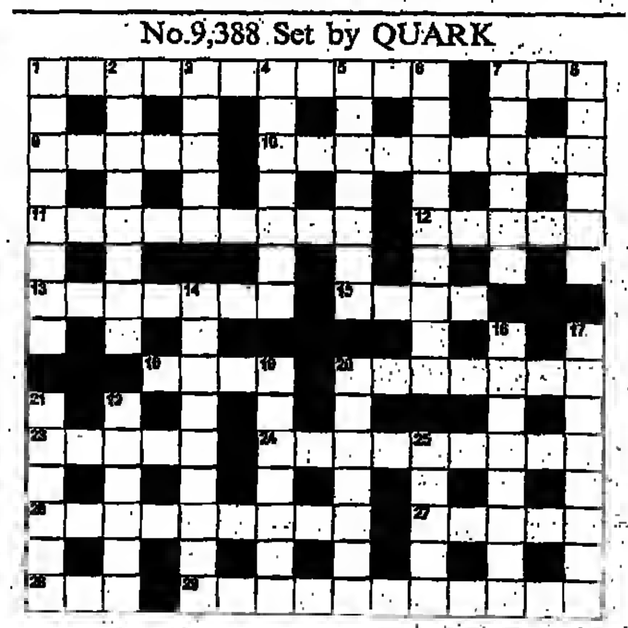
Gold (per troy oz)♣	$344.15	
Silver (per troy oz)♣	476.00c	+5.00
Platinum (per troy oz.)	$399.50	+16.50
Palladium (per troy oz.)	$193.00	+18.00
Copper	125.0c	
Lead (US prod.)	45.00c	
Tin (Kuala Lumpur)	14.15r	
Tin (New York)	264.5	-3.0
Cattle (live weight)	91.85p	+1.32*
Sheep (live weight)	128.77p	+3.32*
Pigs (live weight)†	102.10p	-2.37*
Lon. day sugar (raw)	$276.80	+3.80
Lon. day sugar (wte)	$329.20	+1.50
Barley (Eng. feed)	Unq	
Maize (US No3 Yellow)	£109.00	
Wheat (US Dark North)	Unq	
Rubber (Jul)♥	73.00p	
Rubber (Aug)♥	73.00p	
Rubber (KL RSS No1)	283.5x	
Coconut Oil (Phil)§	650.0y	-12.5
Palm Oil (Malay.)§	550.0w	+7.5
Copra (Phil)§	$415.0y	
Soyabeans (US)	213.0	
Cotton Outlook'A' index	80.05c	
Wooltops (64s Super)	422p	+7

£ per tonne unless otherwise stated. p pence/kg. c cents/lb. r ringgit/kg m Malaysian cents/kg. w Jun y May/Jun ♥ = Jul London Physical. § CIF Rotterdam. ♣ Bullion market close. * Change on week. †Based on 1,712 head of pigs sold.

JOTTER PAD

CROSSWORD

No.9,388 Set by QUARK



ACROSS

1 Produce disturbance re back tooth under treatment (4,3,4)
7 Money not all back in the bag (3)
9 Impromptu announcement by politician (2,3)
10 A river enveloped by container craft (9)
11 Are they the tops? No, not quite (7-2)
12 Its branch is peaceful and it's included in the Greens (5)
13 The visitor, we hear, made a supposition (7)
15 Miss out the team captain (4)
18 Just fine (4)
20 Being this, Charles gets nothing for English and is upset (7)
23 Burn marks fascinate (5)
24 The fastener of the papers collected dust (5,4)
26 Showing too much stress having insufficient balance (9)
27 King's name? Gather the information (5)
28 Allow time to the French (3)
29 Food? The best's what photographer wants to hear (5,6)

DOWN

1 For which traffic-calming is appropriate? (4,4)
2 Producer of strain. One needs cooler surroundings (8)
3 The board to put forward a proposal (5)
4 Reduced set dance could be held inside (7)
5 Organisation of wide influence with a lot of arms (7)
6 Rough description of a girl? (9)
7 The unruly to rise making a raid (6)
8 Stop Henry leaving part of church (6)
14 Camp's said to be crooked, irregular (9)
16 Dull end to game for one sharing accommodation (8)
17 RC raised garden supported by church trust (8)
19 Find substitute on location (7)
20 Part of the skeleton turns me out of (7)
21 87 here (could be a fishy lot) (6)
22 University break up to take in warming (6)
25 Drags up a Hebrew word from the Psalms (5)

Solution 9,387

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BERMUDA (SIB RECOGNISED)

BERMUDA (REGULATED)(**)

GUERNSEY (SIB RECOGNISED)

GUERNSEY (REGULATED)(**)

IRELAND (SIB RECOGNISED)

IRELAND (REGULATED)(**)

ISLE OF MAN (SIB RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (SIB RECOGNISED)

JERSEY (REGULATED)(**)

LUXEMBOURG (SIB RECOGNISED)

Offshore Funds and Insurances

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Abtrust Fund Mngrs Luxembourg SA (z)

4 Boulevard Royal L 2449 Luxembourg 00 352 227001

Fleming Group - Contd.

Mercury Asset Management - Contd.

ACM Global Investment - Contd.

Daiwa Japan Gem Fund

Merrill Lynch Asset Management - Contd.

Swiss Bank Corporation - Contd.

LUXEMBOURG (REGULATED)(**)

OFFSHORE INSURANCES

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OTHER OFFSHORE FUNDS

● MANAGED FUNDS NOTES

Prices are in pence unless otherwise indicated and those designated $ with no prefix refer to U.S. dollars. Yields % allow for all buying expenses. Prices of certain older insurance linked plans subject to capital gains tax on sales.

(*) Funds not SIB recognised. The regulatory authorities for these funds are:
Bermuda - Bermuda Monetary Authority
Guernsey - Financial Services Commission
Ireland - Central Bank of Ireland/Irish Department of Enterprise and Employment
Isle of Man - Financial Supervision Commission
Jersey - Financial Services Department
Luxembourg - Institut Monetaire Luxembourgeois.

Initial charge - Charge made on sale of units.
Selling price - Bid or redemption price.
Buying price - Offer or issue price.
OEIC - Open Ended Investment Company.
Time - The time shown alongside the fund manager's name is the time of the fund's valuation point unless indicated by one of the following symbols:

- (✱) 0001 to 1100 hours
- (✱✱) 1101 to 1400 hours
- (▲) 1401 to 1700 hours
- (▲▲) 1701 to midnight
- E Exit charge on sale of units.
- C Manager's periodic charge deducted from capital.
- H Historic pricing F - Forward pricing
- b Distribution free of UK taxes.
- p Periodic premium insurance plans.
- s Single premium insurance.
- x Designated as a UCITS (Undertakings for Collective Investment in Transferable Securities).
- x Offered price includes all expenses except agent's commission.
- x Previous day's price.
- §§ Guernsey gross.
- ◊ Yield before Jersey tax.
- † Ex-subdivision. xd - Ex-dividend.
- ‡ Only available to charitable bodies
- ◆ Yield column shows annualised rate of NAV increase.

The fund prices published in this edition are also available at the Financial Times' web site, http://www.FT.com

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

[illegible]

BANKS, RETAIL

[illegible]

BREWERIES, PUBS & REST

[illegible]

BUILDING & CONSTRUCTION

[illegible]

BUILDING MATS. & MERCHANTS

[illegible]

CHEMICALS

[illegible]

CHEMICALS - Cont.

[illegible]

DISTRIBUTORS

[illegible]

DIVERSIFIED INDUSTRIALS

[illegible]

ELECTRICITY

[illegible]

ELECTRONIC & ELECTRICAL EQPT

[illegible]

ENGINEERING

[illegible]

ENGINEERING - Cont.

[illegible]

EXTRACTIVE INDUSTRIES - Cont.

[illegible]

FOOD PRODUCERS

[illegible]

GAS DISTRIBUTION

	Notes	Price	+ or -	52 week high	52 week low	Mkt Cap£m	Yld Gr's	P/E
BG	[illegible]	205½xd	+3	208½	134	8,116	8.0	20.1
Centrica		84½	–	77½	55	2,872	–	–
International Energy	[illegible]	94xd	–	108	84½	53.0	3.9	11.8

HEALTH CARE

	Notes	Price	+ or -	52 week high	52 week low	Mkt Cap£m	Yld Gr's	P/E
Amersham	[illegible]	1300	+11	1340	940	787.8	1.8	27.5
Assoc Nursing	[illegible]	124	–	[illegible]	118	28.5	3.4	11.4
Baxter Int $		[illegible]	–	[illegible]	[illegible]	7,697	2.5	–
[illegible]	[illegible]	[illegible]	–	[illegible]	390	152.4	2.4	8.9
Biocompatibles Int	[illegible]	1277½	[illegible]	1432½	358½	836.4	–	–

ENGINEERING - Cont.

[illegible]

ENGINEERING, VEHICLES

[illegible]

EXTRACTIVE INDUSTRIES

[illegible]

HEALTH CARE - Cont.

[illegible]

HOUSEHOLD GOODS

[illegible]

INSURANCE

[illegible]

INSURANCE - Cont.

[illegible]

INVESTMENT TRUSTS

[illegible]

INVESTMENT TRUSTS - Cont.

[illegible]

INV TRUSTS SPLIT CAPITAL

[illegible]

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LONDON SHARE SERVICE

INV TRUSTS SPLIT CAPITAL - Cont.

MEDIA - Cont.

PHARMACEUTICALS - Cont.

RETAILERS, GENERAL - Cont.

TEXTILES & APPAREL - Cont.

AIM - Cont.

TOBACCO

TRANSPORT

PROPERTY

OTHER INVESTMENT TRUSTS

SUPPORT SERVICES

OIL EXPLORATION & PRODUCTION

AMERICANS

INVESTMENT COMPANIES

WATER

AIM

CANADIANS

OIL, INTEGRATED

OTHER FINANCIAL

SOUTH AFRICANS

LEISURE & HOTELS

PROPERTY - Cont.

SUPPORT SERVICES - Cont.

PAPER, PACKAGING & PRINTING

RETAILERS, FOOD

TELECOMMUNICATIONS

LIFE ASSURANCE

RETAILERS, GENERAL

TEXTILES & APPAREL

MEDIA

PHARMACEUTICALS

GUIDE TO LONDON SHARE SERVICE

Prices for the London Share Service are delivered by Extel, part of Financial Times Information.

Company classifications are based on those used for the FTSE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise stated. Highs and lows are based on intra-day mid-prices over a rolling 52 week period.

Where stocks are denominated in currencies other than sterling, this is indicated after the name. Prices shown for some of these foreign securities are converted into sterling from latest available local Stock Exchange prices.

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Market capitalisation shown is calculated separately for each line of stock quoted.

Earnings used in calculations are based on IIMR 'Headline Earnings' formula.

Price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures.

Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- Highs and lows marked thus have been adjusted to allow for capital changes
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- Figures or report awaited
- Rule 2.1(a)(iv) Overseas incorporated companies listed on an approved exchange.
- Free annual/interim report available, see details below.
- Rule 4.2(a) Irish incorporated non-listed companies.
- Price at time of suspension
- ¶ Indicated dividend yield after pending scrip and/or rights issue
- Merger bid or reorganisation in progress
- § Forecast dividend yield; p/e based on earnings updated by latest interim statement.
- ♠ Unregulated collective investment scheme.

a Yield based on annualised dividend. b Figures based on prospectus or other official estimates ... f Indicated dividend yield, p/e ratio based on latest annual earnings. g Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings. z Dividend yield includes a special payment.

F Yield based on prospectus or other official estimates for 1996-97. ... L Estimated annualised yield, p/e based on latest annual earnings. M Yield based on prospectus or other official estimates for 1997-98. Θ Dividend is paid in whole or part as a ...

FID (Foreign Income Dividend). R Forecast annualised yield, p/e based on ...

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xi ex capital distribution.

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LONDON STOCK EXCHANGE

Shares still hampered by bond market fears

MARKET REPORT

By Steve Thompson, UK Stock Market Editor

Another worryingly nervous performance by global bond markets in the wake of the rift between the German government and the Bundesbank and ahead of Sunday's French general election brought renewed uncertainty to London's equity market.

But a strong showing by recently weak engineering/defence/aerospace stocks came to the market's rescue, helping to minimise the impact on the FTSE 100 index of a wholesale retreat by the financial sectors.

The latter have been the main driving force behind the stock market's meteoric rise this year which has seen Footsie up almost 14 per cent; since the general election, the index has risen 5.3 per cent.

Footsie ended the day 5.2 off at 4,672.3 after swinging in a 32-point arc during a tense trading session. The FTSE 250 was virtually becalmed all day, eventually finishing 0.2 up at 4,508.2, while the FTSE SmallCap settled 0.9 off at 2,298.9. The FTSE All-Share index closed 1.88 down at 2,220.52.

Marketmakers, while noting the growing uncertainty in bonds and the worries about the outperformance of financials because of the "Halifax factor", were not unduly concerned about a big sell-off in the market.

"Underneath, the market feels fine. There are no real sellers hitting the market at the moment and we seem to have ridden out the storm caused by the German and French worries," said the head of marketmaking at one of the big UK securities houses. He sounded a note of caution, however, about a possible interest rate rise in Japan, which he said might produce some repatriation of Japanese investment funds.

London made a poor start to the session, with dealers chopping their opening levels to accommodate a minor fall on Wall Street overnight and any potential selling prompted by concerns about France and Germany.

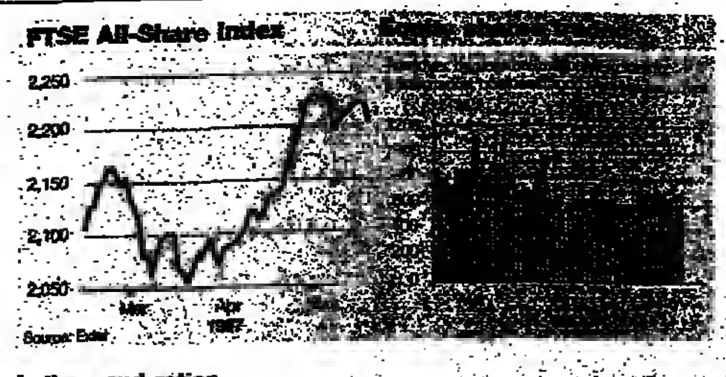
There were also worries in London that sterling might continue to make progress against the D-Mark, putting additional pressure on big UK exporters, which have suffered from the effects of the pound's recent rise.

Down 21.2 points minutes after the opening, Footsie embarked on a rally which took the index back into positive ground in mid-morning. The recovery was never firmly based, however, and renewed selling and a dip in gilts took indices down again.

Although most of the talk in dealing rooms was about the Halifax auction and flotation, which is still expected to go exceptionally well, there was plenty of excitement about this morning's listing of shares in Gallaher, the tobacco company hived off by American Brands of the US.

Talk among dealers was that the stock would kick off well below the 310p-320p level mentioned by advisers to the float and possibly below 300p. American Brands investors, issued with stock on the basis of four Gallaher shares for every American Brands share, are expected to be aggressive sellers. Turnover at 6pm was 719m shares.

FTSE All-Share Index



Indices and ratios

FTSE 100	4672.3	-5.2	FT 30	2997.8	-2.7
FTSE 250	4508.2	+0.2	FTSE Non-Fins p/e	18.85	18.84
FTSE 350	2261.9	-2.0	FTSE 100 Fut Jun	4680.0	-8.0
FTSE All-Share	2220.52	-1.88	10 yr Gilt yield	7.28	7.26
FTSE All-Share yield	3.49	3.49	Long gilt/equity yld ratio	2.13	2.13

Best performing sectors		Worst performing sectors	
1 Retailers : Food	+1.2	1 Diversified Inds	-2.0
2 Gas Distribution	+1.1	2 Life Assurance	-2.0
3 Engineering	+1.0	3 Insurance	-1.7
4 Pharmaceuticals	+0.9	4 Banks: Retail	-1.4
5 Property	+0.8	5 Extractive Inds	-1.3

BAe sharply higher

By Joel Kibazo and Peter John

The market cheered news that British Aerospace is to discontinue production of the Jetstream 41 turboprop aircraft by the end of the year.

BAe said it is making a £250m provision in the first half of 1997 for the cessation of the project.

One analyst said: "British Aerospace has at long last bitten the bullet and done what it should have done years ago."

Although analysts welcomed the move, several suggested the provisions will be higher than anticipated. Shares in the group rose 26 to close at £12.51½.

GKN walked away with the prize for the day's best performing stock in the FTSE 100. The shares gained 30 or nearly 3 per cent to £10.47½, with dealers citing a shortage of stock for the advance. Litigation worries that have driven the shares lower over the last six months have receded in recent weeks as several brokers urged investors to buy the shares.

Aero engine manufacturer Rolls-Royce rose as the market responded to Wednesday's positive statement at the group's annual meeting. The company chairman said the recovery in civil aviation gathered pace in 1996 and is expected to continue in spite of intense competition. He also said the outlook for the group's defence products is more stable. The shares put on 5½ to 251½p.

Smiths Industries rose 11½ to 780p as several brokers reiterated positive trading views on the stock following a visit to the company.

Figures at the top end of market expectations and a confident accompanying statement helped boost Siebe. The shares appreciated 13 to 961½p after solid trade of 6.1m.

Analysts at Credit Lyonnais Laing and SGST were reported to be among a long list of brokers that upgraded the stock from "hold" to "buy", while BZW, already a fan, reiterated its buy stance on the shares.

Mr Paul Compton at Merrill Lynch, another bull of the stock, said simply: "With these figures, Siebe has distanced itself from the difficulties of the mainstream manufacturing sector."

It was a busy session for engineering group FKI and turnover at the close stood at 3.5m. The shares moved 5 ahead to 177½p. The team at Merrill Lynch see FKI as one of the UK's "US-biased engineering companies that have not been too affected by the strength of sterling."

Imperial Tobacco drifted as investors, already underweight in the sector because of the legal climate overhanging the industry, stayed away ahead of the Gallaher float today.

Mr Nyren Scott-Malden of BZW was said to have been advising clients to buy Gallaher shares up to 300p and switch out of Imperial at 406p. There is a feeling that funds may prefer to hold BAT for overseas exposure and choose only one of Gallaher or Imperial – because both concentrate operations in the UK. Imperial eased 2½ to 384p and BAT added 1½ at 561½p.

EMI boosted

EMI lifted 4 to £11.80 as the prospect of an offer from Seagram of the US returned.

Speculation that Seagram might make an offer for one of the world's largest record companies was rampant towards the end of last year. It faded in April on reports that talks had been called off. But, on Wednesday, Seagram sold 30m Time Warner shares for $1.39bn raising prospects of a war chest. Some analysts also said EMI had been very reticent about possible links, when pushed for information at the results meeting earlier in the week.

Financial stocks came in for heavy profit-taking ahead of today's global auction of Halifax shares.

Since the start of the year banks have outperformed the All-Share by more than 20 per cent and yesterday seven of the eight worst performers in the FTSE 100 index were either banks or insurers.

Abbey National shunted back 25½ to 901½p with Mr Peter Birch, the chief executive, adding his voice to expectations of a further interest rate rise shortly. And Barclays lost 39½ to £12.18 with some downside pressure coming from vague rumours that Mr Martin Taylor, the chief executive, was poised to leave.

Mr Taylor has been seconded part-time to help the government streamline the tax and benefits system.

Among insurers, Legal & General, which has been driven forward ahead of next month's Norwich Union float, dropped 16 to 460p and Commercial Union shed 20½ to 691½p.

Also, the middle price on Halifax quoted by financial bookmakers was down to around 725p from 740p on Thursday. Nevertheless, most analysts expect intense interest today.

Disappointing figures from M&G, the fund management group, sent the shares tumbling 60 to £12.82½, the worst performance among FTSE 250 stocks.

Persistent underperformance by Burmah Castrol against the market has finally gone far enough according to some brokers.

Yesterday, SocGen hoisted its recommendation from "undervalued" to "buy" after the shares hit a near five-year relative low and the price/earnings ratio was at a 15 per cent discount to the market average.

Analyst Ms Irene Himona said the devastating effects of strong sterling were already in the price and the underlying business was very strong, particularly in Asia. She argued that the stock would be more fairly valued at £12.00. The shares lifted 30 to £10.66.

Exploration and production company Soco International started trading on the market at a 6.5 per cent discount to the 260p placing price. Soco, which was floated principally to raise money for developing oil reserves in Mongolia, began trading at 240p and ended the day only a penny higher.

London International Group topped the FTSE 250 performance list, the shares accelerating to finish 13 higher at 169½p after scintillating preliminary figures, which included a 40 per cent lift in the dividend total. Current year forecasts were being increased to around the £43m mark.

Industrial conglomerate BTR was the worst performer in the FTSE 100, closing 9 off at 197p in trade of 15m as the stock continued to react to a broker's sharp downgrade and change of recommendation this week.

In the drinks sector, uncertainty continued to depress both Guinness and Grand Metropolitan. The former gave up 7 to 575p while the latter also gave up 7 to 574p in trade of 4.7m.

FT 30 INDEX

	May 29	May 28	May 27	May 23	May 22	Yr ago	*High	*Low
FT 30	2997.8	3000.5	3002.7	3003.0	2997.5	2780.3	3018.6	2669.8
Ord. div. yield	3.65	3.66	3.66	3.66	3.67	3.98	4.22	3.62
P/E ratio net	18.18	18.14	18.14	18.13	18.10	18.18	18.33	15.80
P/E ratio nil	17.99	17.96	17.96	17.95	17.92	15.95	18.14	15.71

FT 30 since compilation: high 3018.6 13/05/97; low 49.4 26/06/40. Base Date: 1/7/35.

FT 30 hourly changes

Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.00	High	Low
2990.5	3003.4	3003.7	3006.1	3002.6	3000.6	2999.6	2998.9	3001.0	3008.4	2990.5

	May 29	May 28	May 27	May 23	May 22	Yr ago
SEAQ bargains	41,194	42,622	45,881	45,053	45,222	32,007
Equity turnover (£m)†	-	NA	NA	NA	2547.2	1708.8
Equity bargains†	-	NA	NA	NA	45,109	37,601
Shares traded (m)†	-	NA	NA	NA	712.3	580.3

†Excluding intra-market and overseas turnover but including Crest turnover.

 *For 1997.

■ London market data

Rises and falls*		52 Week highs and lows		LIFFE Equity options	
Total Rises	579	Total Highs	83	Total contracts	32,507
Total Falls	729	Total Lows	73	Calls	19,620
Same	1,768			Puts	12,887

May 29 *Data based on Equity shares listed on the London Share Service.

FUTURES AND OPTIONS

■ FTSE 100 INDEX FUTURES (LIFFE) £25 per full index point (APT)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	4678.0	4680.0	-8.0	4705.0	4673.0	9618	65172
Sep	4711.0	4713.5	-8.0	4734.0	4711.0	1073	7215
Dec		4762.0	-8.0			0	1522

■ FTSE 250 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun		4504.0	+1.0			0	5911
Sep		4556.5	+1.0			0	300

■ FTSE 100 INDEX OPTION (LIFFE) (*4672) £10 per full index point

Calls 2,128 Puts 1,511

■ EURO STYLE FTSE 100 INDEX OPTION (LIFFE) £10 per full index point

	4525 C	4525 P	4575 C	4575 P	4625 C	4625 P	4675 C	4675 P
Apr	171½	17	131	28½	94½	39½	69½	58½
May	209½	37½	171	49	136	63½	105	82
Jun	225½	57	189½	70½	158½	86½	127	108
Sep	257½	72½			189½	102½		
Dec†	331½	102½			265	132½		

Calls 11,237 Puts 8,805 * Underlying index value. Premiums shown are based on settlement prices. † Long dated expiry months.

LONDON RECENT ISSUES: EQUITIES

Issue price p	Amt paid up	Mkt. cap (£m.)	1997 High	1997 Low	Stock	Close price p	+/-	Net div.	Div. cov.	Grs yld	P/E net
*	F.P.	3,578	655	532½	Alliance & Leic	614½	-9	L18.3	2.5	3.3	15.1
§	F.P.	94.7	1200	820	Aston Villa	827½		R8.8	1.8	1.3	45.5
-	F.P.	3,872	306½	259½	Cable & Wireless	260		-	-	-	-
-	F.P.	-	102	97½	Caradon B	99½	-1½	-	-	-	-
100	F.P.	25.0	100	100	Downing HI VCT	100		-	-	-	-
§40	F.P.	3.36	42½	30	†Eagles	34½		-	-	-	-
§140	F.P.	10.9	147½	107½	Heart of Midlthn	107½	-3	-	-	-	-
§	F.P.	7.16	164½	159½	†ITG	159½		-	-	-	-
100	F.P.	3.17	105½	102½	†Integrated As Mg	105½		-	-	-	-
§110	F.P.	5.17	130½	122½	†Lady In Leisure	124½		b-	-	-	-
§	F.P.	3.76	119½	112½	Longbridge Intl	119½		-	-	-	18.7
50	F.P.	19.6	54½	47½	†NMT	50		-	-	-	-
§10	F.P.	4.93	14¾	11½	†Newmark Tech	11¾	-¼	-	-	-	-
100	F.P.	8.00	100	100	Penine AIM VCT	100		-	-	-	-
-	F.P.	19.7	70½	38½	†Petra Diamonds	67½	-1	-	-	-	-
-	F.P.	0.83	49½	13½	†Do Warrants	49½	+1	-	-	-	-
143	F.P.	21.8	155½	150	Quilceram	155½		22.6%	-	1.5	-
§117	F.P.	16.1	124½	120½	Salehurst	121½	-1	L3.75	1.3	3.9	19.4
8	F.P.	8.73	8½	8	†South Beach Cafe	8	-¼	-	-	-	-
§100	F.P.	10.6	108½	102½	†Soccer Investmnt	105½		-	-	-	-
-	F.P.	118.9	282½	235	†Soco Intl	241		-	-	-	-
§3	F.P.	5.04	4	3½	Versailles Group	3½		-	-	-	-

† Alternative Investment Market. § Placing price. * Introduction. For a full explanation of all other symbols please refer to The London Share Service notes.

FTSE GOLD MINES INDEX

	May 28	% chg on day	May 27	Year ago	Gross div yield %	P/E ratio	52 week High	52 week Low
Gold Mines Index (31)	1569.70	-0.9	1577.69	2817.24	2.17	-	2376.96	1488.60
■ Regional Indices								
Africa (14)	1742.89	-0.4	1750.13	3112.47	5.10	27.71	3144.05	1724.86
Australasia (6)	1758.27	-0.5	1767.42	2580.01	2.98	19.58	2677.22	1748.20
North America (11)	1498.42	-1.1	1513.20	2052.93	0.96	61.63	2126.45	1335.84

 Figures in brackets show number of companies. Basis US Dollars. Base Value: 1000.00 31/12/92. † Partial. Latest prices were unavailable for this edition.

FTSE Actuaries Share Indices — The UK Series

Produced in conjunction with the Faculty and Institute of Actuaries

	May 29	Day's chge%	May 28	May 27	May 23	Year ago	Div. yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
FTSE 100	4572.3	-0.1	4577.5	4581.6	4561.8	3746.7	3.51	2.04	17.45	78.58	1990.03
FTSE 250	4508.2	......	4508.0	4508.0	4506.7	4500.0	3.61	1.57	22.04	67.97	1875.64
FTSE 250 ex IT	4517.8	......	4517.3	4518.5	4518.9	4542.5	3.79	1.60	20.82	70.41	1884.91
FTSE 350	2261.8	-0.1	2263.8	2265.5	2257.7	1898.9	3.53	1.95	18.18	37.28	1967.07
FTSE 350 ex IT	2261.7	-0.1	2263.7	2265.4	2257.5	-	3.55	1.96	17.93	4.97	1008.53
FTSE 350 Higher Yield	2202.4	-0.2	2206.7	2209.2	2202.1	1829.4	4.53	1.83	15.18	43.31	1621.55
FTSE 350 Lower Yield	2326.9	......	2326.4	2327.0	2318.2	1975.7	2.48	2.18	22.95	30.72	1657.18
FTSE SmallCap	2298.88	......	2299.79	2300.24	2299.61	2228.28	3.06	1.71	23.87	30.35	1946.12
FTSE SmallCap ex IT	2286.91	......	2288.02	2290.03	2291.01	2225.33	3.28	1.79	21.30	32.32	1951.73
FTSE All-Share	2220.52	-0.1	2222.40	2223.91	2216.70	1884.42	3.49	1.93	18.50	36.04	1959.89
FTSE All-Share ex IT	2219.88	-0.1	2221.78	2223.47	2216.27	-	3.54	1.95	18.11	4.80	1007.52

■ FTSE Actuaries Industry Sectors

	May 29	Day's chge%	May 28	May 27	May 23	Year ago	Div. yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
10 MINERAL EXTRACTION(20)	4412.95	-0.4	4428.71	4419.19	4384.13	3477.17	3.45	2.02	17.95	85.94	1975.96
12 Extractive Industries(5)	4442.92	-1.3	4501.28	4485.70	4505.32	4515.89	3.54	2.38	14.78	104.80	1358.06
15 Oil, Integrated(3)	4566.08	-0.2	4574.57	4582.88	4513.29	3489.27	3.84	1.96	17.55	90.81	2101.77
18 Oil Exploration & Prod(12)	3584.03	-0.6	3605.53	3618.77	3622.22	2502.04	1.61	2.22	34.98	36.78	2195.09
20 GEN INDUSTRIALS(268)	1929.72	......	1929.20	1928.30	1934.77	2082.34	4.15	1.91	15.77	33.01	1097.67
21 Building & Construction(35)	1391.04	+0.1	1390.09	1383.40	1382.55	1208.51	3.11	1.88	21.36	23.61	1208.71
22 Building Matls & Merchs(30)	1871.50	+0.8	1856.21	1857.67	1864.60	1895.42	4.28	2.77	10.53	34.84	985.44
23 Chemicals(26)	2389.71	+0.4	2380.90	2353.74	2337.84	2525.45	4.40	1.47	18.36	49.97	1185.26
24 Diversified Industrials(16)	1322.26	-2.0	1349.64	1351.96	1373.89	1695.42	5.51	1.97	11.49	36.42	783.31
25 Electronic & Elect Equip(38)	2058.28	-0.3	2064.79	2067.43	2078.82	2444.11	3.82	1.56	20.93	14.36	1100.41
26 Engineering(69)	2519.74	+1.0	2494.67	2487.60	2510.52	2435.43	3.38	2.48	14.89	32.11	1578.57
27 Engineering, Vehicles(13)	2841.53	+0.5	2826.87	2815.31	2812.41	3062.53	3.92	‡	‡	38.65	1521.18
28 Paper, Pckg & Printing(27)	2199.64	-0.8	2213.84	2234.74	2244.65	2706.95	4.76	1.87	14.05	41.86	953.96
29 Textiles & Apparel(14)	1032.89	......	1032.93	1042.14	1045.10	1409.36	6.85	0.96	19.11	38.39	676.30
30 CONSUMER GOODS(84)	4518.81	+0.3	4503.38	4502.94	4482.07	3534.23	3.36	1.61	20.48	84.74	1743.18
32 Alcoholic Beverages(7)	3253.87	-1.0	3286.20	3357.53	3345.27	2820.49	4.07	1.88	16.34	76.56	1237.26
33 Food Producers(25)	2951.37	-0.3	2959.99	2959.79	2959.10	2443.68	3.74	1.85	18.06	59.48	1394.50
34 Household Goods(17)	2934.82	-0.1	2938.68	2939.18	2944.98	2868.95	3.54	2.30	15.35	54.72	1206.86
36 Health Care(15)	2209.81	+0.7	2194.91	2185.70	2175.13	2082.14	2.73	1.65	27.77	32.09	1385.33
37 Pharmaceuticals(18)	7253.18	+0.9	7186.78	7128.31	7057.15	5030.88	2.65	1.71	28.64	104.77	2546.21
38 Tobacco(2)	4618.00	+0.2	4611.03	4649.24	4597.26	4392.15	5.86	1.67	11.39	147.58	1229.52
40 SERVICES(271)	2691.43	+0.6	2676.32	2680.38	2686.65	2534.26	2.93	1.97	21.67	38.38	1448.09
41 Distributors(30)	2727.20	......	2728.56	2734.87	2742.15	2957.84	3.37	1.94	19.11	40.14	1040.70
42 Leisure & Hotels(31)	3432.28	+0.2	3425.08	3450.48	3468.98	3179.97	2.67	1.79	26.22	60.16	1800.16
43 Media(44)	4350.35	+0.4	4334.45	4330.43	4341.86	4221.10	2.28	1.90	28.87	58.25	1614.56
44 Retailers, Food(15)	2095.01	+1.2	2069.37	2071.61	2102.43	2033.01	3.90	2.21	14.49	50.87	1396.08
45 Retailers, General(53)	2105.82	+0.6	2092.32	2097.92	2093.43	2072.36	3.27	2.07	18.43	34.03	1250.42
47 Breweries, Pubs & Rest.(22)	3302.73	+0.5	3287.19	3301.07	3305.58	3180.89	3.38	2.18	16.94	33.88	1637.50
48 Support Services(54)	3083.22	+0.7	3062.40	3053.91	3051.12	2440.12	1.67	2.88	27.89	22.11	2005.61
49 Transport(22)	2831.43	+0.7	2812.64	2815.46	2833.04	2409.89	3.48	1.30	27.59	30.52	1228.65
60 UTILITIES(31)	2824.36	+0.4	2814.15	2806.15	2810.61	2408.43	4.93	1.49	16.97	22.49	1291.58
62 Electricity(9)	3137.80	+0.8	3118.57	3112.95	3119.97	2665.70	5.88	2.02	10.91	22.08	1733.14
64 Gas Distribution(2)	1818.50	+1.1	1798.32	1781.49	1788.22	1277.13	6.71	‡	‡	68.13	1038.67
66 Telecommunications(8)	2276.15	+0.2	2270.73	2268.16	2272.73	2020.73	3.86	1.71	18.97	9.54	1079.06
68 Water(12)	2625.63	-0.2	2630.47	2617.21	2610.14	2283.68	5.91	2.23	8.48	0.00	1518.58
69 NON-FINANCIALS(674)	2235.22	+0.2	2229.87	2228.94	2228.10	2007.51	3.61	1.84	18.65	35.06	1770.68
70 FINANCIALS(106)	4370.64	-1.2	4424.73	4444.51	4387.09	2890.37	3.30	2.38	15.94	84.77	1971.23
71 Banks, Retail(8)	6640.00	-1.4	6737.12	6767.29	6639.83	3919.87	3.03	2.65	15.57	129.00	2272.76
73 Insurance(18)	1736.11	-1.7	1765.55	1781.44	1788.18	1514.59	4.98	2.52	9.92	54.22	1387.81
74 Life Assurance(7)	4956.38	-2.0	5057.64	5109.30	5063.93	3502.54	3.56	1.96	17.93	121.00	2164.95
77 Other Financial(29)	3269.84	-0.3	3278.16	3271.80	3258.83	2728.18	3.30	1.89	20.06	38.26	1934.55
79 Property(44)	2059.18	+0.8	2042.50	2039.53	2033.55	1642.32	3.12	1.29	31.17	15.25	1312.14
80 INVESTMENT TRUSTS(127)	3417.61	-0.1	3419.90	3413.57	3402.44	3213.42	2.17	1.13	50.94	26.54	1221.08
89 FTSE All-Share(807)	2220.52	-0.1	2222.40	2223.91	2216.70	1884.42	3.48	1.93	18.50	36.04	1959.89
105 FTSE All-Share ex IT(780)	2218.88	-0.1	2221.79	2223.47	2216.27	-	3.54	1.95	18.11	4.80	1007.52
FTSE Fledgling	1284.79	-0.2	1287.09	1287.77	1290.32	1272.15	3.05	0.79	51.91	17.31	1385.22
FTSE Fledgling ex IT	1296.05	-0.2	1299.18	1300.84	1304.23	1285.17	3.36	0.77	48.50	16.37	1398.24
FTSE AIM	1074.4	-0.1	1075.9	1082.5	1083.8	-	0.98	0.97	80.00†	0.33	981.56

■ Hourly movements

	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	High/day	Low/day
FTSE 100	4657.8	4674.4	4682.1	4686.9	4678.8	4678.2	4677.8	4675.5	4671.8	4688.4	4656.3
FTSE 250	4505.4	4508.0	4506.3	4508.6	4508.5	4508.0	4508.4	4508.3	4508.9	4509.8	4505.4
FTSE 350	2256.0	2262.7	2265.8	2267.7	2264.8	2264.2	2264.1	2263.2	2261.8	2268.2	2255.4
FTSE SmallCap	2298.51	2299.27	2299.22	2299.09	2298.93	2298.70	2298.44	2298.50	2298.98	2299.60	2298.30
FTSE All-Share	2215.13	2221.27	2224.02	2225.73	2223.21	2222.58	2222.46	2221.81	2220.40	2226.23	2214.83

Time of FTSE 100 Day's high: 10.50 AM Day's low: 8.35 AM. FTSE 100 1997 High: 4672.3 (29/05/97) Low: 4056.6 (10/01/97)
Time of FTSE All-Share Day's high: 10.50 AM Day's low: 8.35 AM. FTSE All-Share 1997 High: 2220.50 (29/05/97) Low: 1969.78 (02/01/97)

Further information is available on http://www.ftse.com or contact FTSE International on +44 (0)171 448 1810.

† Sector P/E ratios greater than 80 and net covers greater than 30 are not shown.
‡ Values are negative.

FTSE INTERNATIONAL

TRADING VOLUME

■ Major Stocks Yesterday

Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE

PACIFIC

AFRICA

NORTH AMERICA

INDICES

US INDICES

Dow Jones	May 28	May 27	May 23	1997 High	1997 Low	Since compilation High	Since compilation Low
Industrials	7357.23	7383.41	7345.91	7383.41 (27/5)	6391.69 (11/4)	7383.41 (27/5/97)	41.22 (8/7/32)
Home Bonds	102.00	102.01	102.26	108.63 (19/2)	101.09 (14/4)	108.77 (18/10/93)	54.99 (1/10/81)
Transport	2655.76	2677.48	2683.37	2683.37 (23/5)	2222.07 (2/1)	2683.37 (23/5/97)	13.23 (8/7/32)
Utilities	220.56	219.67	220.58	240.85 (22/1)	209.47 (25/4)	256.48 (31/8/93)	16.53 (8/7/32)

DJ Ind. Day's high 7450.20 (7421.32) Low 7287.26 (7276.88) (Theoretical) Day's high 7391.14 (7394.85) Low 7308.72 (7302.23) (Actual)

Standard and Poors							
Composite‡	847.21	849.71	847.03	849.71 (27/5)	737.01 (2/1)	849.71 (27/5/97)	4.40 (1/6/32)
Industrials¥	1002.60	1006.26	999.55	1006.26 (27/5)	865.42 (11/4)	1006.26 (27/5/97)	3.52 (30/6/32)
Financial	93.36	93.35	94.55	97.25 (10/3)	80.75 (2/1)	97.25 (10/3/97)	7.13 (4/9/74)
NYSE Comp.	439.55	440.67	440.35	440.67 (27/5)	389.47 (11/4)	440.67 (27/5/97)	4.64 (25/4/42)
Amex Comp.	600.79	598.44	597.94	603.83 (10/3)	541.20 (28/4)	617.81 (22/5/96)	524.20 (15/7/96)
NASDAQ Cmp	1410.16	1409.21	1399.72	1410.16 (28/5)	1201.00 (2/4)	1410.16 (28/5/97)	54.87 (3/10/74)

■ RATIOS

	May 23	May 16	May 9	Year ago
Dow Jones Ind. Div. Yield	1.68	1.71	1.71	2.15
	May 28	May 21	May 14	Year ago
S & P Ind. Div. yield	1.57	1.57	1.65	1.89
S & P Ind. P/E ratio	23.68	23.39	23.89	22.38

■ NEW YORK ACTIVE STOCKS

Wednesday	Stocks traded	Close price	Change on day
CUC Intl	13,227,100	23⅛	-2⅝
Bay Network	9,736,600	25¼	+2⅛
AT & T	8,543,800	37	-⅛
IBM	8,943,800	90	+⅛
Westinghouse	7,818,000	19⅝	+⅛
Micron Tech	7,374,000	43¼	+⅛
Ph Morris	6,918,700	43⅝	-⅞
Nike	6,370,200	63¾	+3¾
Seagate	5,861,400	44¼	+1½
HFS	4,561,300	54½	-4

■ TRADING ACTIVITY

● Volume (million)

	May 28	May 27	May 23
New York SE	491.168	438.057	405.714
Amex	18.161	17.853	15.635
NASDAQ	658.180	648.314	549.680
NYSE			
Issues Traded	3,337	3,362	3,327
Rises	1,318	1,225	1,880
Falls	1,152	1,308	619
Unchanged	867	829	828
New Highs	176	213	206
New Lows	13	10	11

■ S&P 500

	Open	Latest	Change	High	Low	Est. vol.	Open Int.
Jun	850.20	848.90	-1.65	851.40	848.90	65,576	173,307
Sep	858.60	858.20	-1.00	858.80	857.70	3,542	17,379

■ Nikkei 225

	Open	Sett price	Change	High	Low	Est. vol.	Open Int.
Jun	20310.0	19880.0	-280.0	20390.0	20120.0	23,465	226,637
Sep	20340.0	19880.0	-240.0	20380.0	20150.0	2,651	28,321

Open interest figures for previous day.

● Excluding bonds ‡ Industrial, plus Utilities, Financial and Transportation. ¥ Subject to official recalculation.

■ TOKYO - MOST ACTIVE STOCKS: Thursday, May 29, 1997

	Stocks Traded	Closing Prices	Change on day		Stocks Traded	Closing Prices	Change on day
Shinko Electric	8.3m	554	+31	Nippon Steel Cp	4.4m	353	-2
Fujitsu	5.6m	1420	+20	NKK Corp	4.3m	242	-4
NEC Corp	5.1m	1650	+10	Nissan Motor	4.2m	780	-9
Furukawa Elect	4.9m	675		Mitsubishi Hvy	4.0m	865	+5
Sakura Bank	4.6m	723	+7	Ind Bk of Japan	3.9m	1430	+30

Prices supplied by Extel, part of FT Information.

NOTES - Prices on this page are as quoted on the individual exchanges and are mostly last traded prices. * Calendar year high and low. # Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all. † Priced in US $

♣ FT Free Annual Reports Service

4 pm close May 29

NEW YORK STOCK EXCHANGE PRICES

1997 High	Low	Stock	Div	Yld %	P/E	Sls 100s	High	Low	Close Quote	Chng Prev. Close
		- A -								
32	24¼	AAR x	0.48	1.8	23	582	30⅞	30⅝	30¾	-⅛
43	33⅛	AMP x	1.04	2.6	32	4645	41⅝	40¼	40¼	-1
99¾	78¼	AMR			7	2122	97⅞	96½	97½	+⅝
37⅝	31½	ASA	1.20	3.7	21	477	32½	31⅞	32½	+⅛
67⅛	49¾	AbbtL	1.08	1.7	25	7519	63⅝	62¼	63	-⅛
19¾	14⅛	Abitibi Pr	0.40	2.2	9	277	u18¼	17⅞	18⅛	+¼
19¾	17⅞	ABM Ind	0.40	2.1	18	262	19⅝	19⅜	19½	-⅛
23	17¾	Acptocaln			18	159	21	20⅞	21	+⅜
66⅞	56⅛	ACE Ltd	0.88	1.4	10	348	62½	61⅝	62⅜	+⅛
10¾	10	ACM Grt In	0.90	8.9	11	346	10¼	10⅛	10⅛	
7⅝	7	ACM GvOpp	0.63	8.5		17	7⅜	7⅜	7⅜	
9⅞	9¼	ACM Man	0.80	9.2		164	9⅜	9⅝	9¼	
10⅜	6¼	Acme Elect				40	7⅛	7	7⅛	
20	13	Acme Mills				61	15½	15⅛	15⅜	+⅛
17⅝	14	ACMstow			20	464	17	16¾	16⅞	+⅛
37⅝	27¼	Acordia x	0.80	2.2	17	58	36	36⅛	36	+½
29¾	21⅛	Acuson				442	25¾	25½	25⅝	-⅛
21⅞	19⅜	Adams Expr x	0.00	2.5	1	48	u21⅞	21¾	21⅞	+⅛
48½	24⅞	AdvMic				18564	41½	39¾	39¾	-2½
17¼	10⅜	Advest Grp	0.03	0.2	12	229	18¾	18½	18½	-¼
14⅝	11⅝	Advo Inc			16	61	14	13⅞	13⅞	
[illegible]										

- B -

- C -

- D -

- E -

- F -

- G -

- H -

- I -

- J -

- K -

- L -

- M -

- N -

- O -

- P - Q -

- R -

- S -

Continued on next page

NYSE PRICES

4 pm close May 29

Continued from previous page

1997 High	Low	Stock	Div.	Yld. %	P/E	Sls 100s	High	Low	Close Price	Chg'ge Prev. Close
58	37$\frac{7}{8}$	York Int	0.48	1.0	15	841	48$\frac{5}{8}$	48$\frac{1}{8}$	48$\frac{1}{2}$	
5	4	Zapata				131	4$\frac{1}{4}$	4$\frac{1}{8}$	4$\frac{1}{8}$	-$\frac{1}{8}$
13$\frac{1}{8}$	9$\frac{1}{8}$	ZeniB				993	11$\frac{1}{2}$	11$\frac{1}{4}$	11$\frac{1}{2}$	+$\frac{1}{8}$
27$\frac{7}{8}$	24$\frac{7}{8}$	Zenith Nat	1.00	4.0	13	39	25$\frac{1}{8}$	25	25	
7$\frac{1}{2}$	7$\frac{1}{8}$	Zenix Inc x	0.73	9.8		236	u7$\frac{1}{2}$	7$\frac{3}{8}$	7$\frac{1}{2}$	
23$\frac{3}{4}$	17$\frac{3}{4}$	Zero x	0.12	0.5	17	261	22$\frac{3}{8}$	22	22$\frac{7}{8}$	+$\frac{3}{4}$
11$\frac{5}{8}$	10$\frac{3}{4}$	ZweigFd♣	1.16	10.0		622	u11$\frac{3}{4}$	11$\frac{1}{2}$	11$\frac{5}{8}$	
8$\frac{3}{4}$	8	Zweig Tot	0.84	9.7		398	u8$\frac{3}{4}$	8$\frac{5}{8}$	8$\frac{5}{8}$	

Price data supplied by Extel, part of FT Information.

Yearly highs and lows for NYSE reflect the period from Jan 1 1997. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Sales figures are unofficial.

d-new yearly low. P/E price-earnings ratio. sls-sales. u-new yearly high. x-ex-dividend or ex-rights. yld-yield. z-sales in full.
Dealings suspended.

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AMEX PRICES

4 pm close May 29

Stock	Div.	P/E	Sls 100s	High	Low	Close	Chng
NY TimA	0.64	22	617	47$\frac{7}{16}$	46$\frac{5}{8}$	46$\frac{5}{8}$	-$\frac{1}{4}$
NVR		6	152	15$\frac{3}{8}$	15$\frac{1}{4}$	15$\frac{5}{16}$	+$\frac{1}{16}$
Pegasus G		71	2804	7$\frac{1}{16}$	6$\frac{13}{16}$	7$\frac{1}{16}$	+$\frac{3}{16}$
Pentni		3	53	7$\frac{3}{8}$	7$\frac{1}{4}$	7$\frac{3}{8}$	+$\frac{1}{16}$
PMC	1.24	11	50	13$\frac{13}{16}$	13$\frac{11}{16}$	13$\frac{13}{16}$	-$\frac{1}{16}$
RaganBrad			z0	23$\frac{1}{2}$	d23$\frac{1}{2}$	23$\frac{1}{2}$	
SJW Corp x	2.28	12	2	54	53$\frac{3}{4}$	54	
Tab Prods x	0.20	12	281	9$\frac{1}{2}$	9$\frac{1}{16}$	9$\frac{7}{16}$	+$\frac{3}{16}$
Tel&Data	0.42	63	z0	38$\frac{1}{2}$	38$\frac{1}{2}$	38$\frac{1}{2}$	+1$\frac{1}{4}$
Thermedcs		15	261	17$\frac{3}{8}$	17$\frac{3}{16}$	17$\frac{7}{16}$	-$\frac{3}{16}$
Thermoins		25	312	35$\frac{5}{8}$	34$\frac{1}{2}$	34$\frac{1}{2}$	-$\frac{5}{8}$
TotPNA	0.30	146	111	10$\frac{1}{4}$	10$\frac{1}{8}$	10$\frac{1}{4}$	+$\frac{1}{8}$
TownCnty		0	37	$\frac{5}{16}$	$\frac{1}{4}$	$\frac{5}{16}$	+$\frac{1}{16}$
Tubos Mex			426	17$\frac{13}{16}$	17$\frac{1}{2}$	17$\frac{9}{16}$	-$\frac{1}{16}$
UtdFoodsA		26	68	u2$\frac{1}{8}$	2$\frac{1}{8}$	2$\frac{1}{8}$	+$\frac{1}{16}$
UtdFoodsB		27	168	u2$\frac{3}{16}$	2$\frac{3}{16}$	2$\frac{3}{16}$	+$\frac{1}{8}$
US Cellul		16	553	27$\frac{1}{4}$	26$\frac{7}{8}$	27$\frac{1}{8}$	+$\frac{1}{2}$
ViacmA		168	422	30$\frac{13}{16}$	30$\frac{1}{16}$	30$\frac{3}{4}$	-$\frac{1}{16}$
ViacmB		167	5066	30$\frac{5}{8}$	29$\frac{13}{16}$	30$\frac{5}{16}$	
WRET 4	1.12	28	z0	13$\frac{5}{16}$	13$\frac{5}{16}$	13$\frac{5}{16}$	
Xytronx			127	1$\frac{1}{4}$	1$\frac{1}{16}$	1$\frac{1}{4}$	-$\frac{1}{16}$

NASDAQ NATIONAL MARKET

4 pm close May 29

Stock	Div.	P/E	Sls 100s	High	Low	Last	Chng
- J -							
JLJ Snack		23	18	14$\frac{3}{8}$	14$\frac{1}{4}$	14$\frac{1}{4}$	
Jason Inc		15	469	6$\frac{1}{2}$	6	6$\frac{1}{4}$	+$\frac{1}{4}$
Johnson W		4	13	12$\frac{7}{8}$	12$\frac{7}{8}$	12$\frac{7}{8}$	+$\frac{5}{8}$
Jones Int			140	19$\frac{3}{4}$	10$\frac{1}{2}$	10$\frac{1}{2}$	
Jones Med	0.10	47	1792	37$\frac{5}{8}$	36	37$\frac{1}{4}$	+$\frac{1}{8}$
JSB Fin	1.40	17	z0	u44$\frac{3}{4}$	44$\frac{3}{4}$	44$\frac{3}{4}$	
Juno Ltg	0.32	14	16	16	15$\frac{5}{8}$	16	
Justin	0.18	13	188	11$\frac{3}{4}$	11$\frac{1}{2}$	11$\frac{1}{4}$	+$\frac{1}{8}$
- K -							
K Swiss	0.08	334	50	13$\frac{3}{8}$	13$\frac{1}{8}$	13$\frac{3}{8}$	+$\frac{1}{8}$
Kaman Cp	0.44	24	1394	13$\frac{3}{4}$	13$\frac{1}{2}$	13$\frac{3}{4}$	+$\frac{1}{8}$
Kelly Sv x	0.84	14	272	28$\frac{1}{4}$	28$\frac{1}{4}$	28$\frac{5}{8}$	+$\frac{1}{8}$
Kimball	1.04	14	486	39$\frac{1}{4}$	38$\frac{5}{8}$	38$\frac{5}{8}$	-$\frac{7}{8}$
KLA-Tn		25	10287	50$\frac{1}{8}$	47$\frac{5}{8}$	48	-1$\frac{3}{4}$
Koll A			680	$\frac{3}{8}$	d$\frac{3}{16}$	$\frac{3}{8}$	
Komag♣		16	17625	33	29	29$\frac{7}{8}$	-3$\frac{1}{2}$
Kulicke S			6624	35$\frac{1}{8}$	33$\frac{5}{8}$	34$\frac{1}{8}$	-1$\frac{1}{4}$
PictureTel		14	4735	12$\frac{1}{2}$	11$\frac{7}{8}$	12$\frac{1}{4}$	+$\frac{1}{16}$
PioneerGp x	0.40	33	199	25$\frac{3}{8}$	23	25	-$\frac{3}{8}$
PioneerSt	0.12	11	1414	12$\frac{3}{8}$	11$\frac{3}{4}$	12$\frac{3}{8}$	+$\frac{1}{8}$
Pixar		29	712	15$\frac{1}{8}$	14$\frac{3}{4}$	15$\frac{1}{8}$	+$\frac{1}{4}$
PlHwdA		36	2404	20$\frac{1}{4}$	19$\frac{3}{8}$	20$\frac{1}{4}$	+$\frac{1}{8}$
PLDTel		8	z0	5$\frac{3}{8}$	5$\frac{3}{8}$	5$\frac{3}{8}$	+$\frac{1}{4}$
Pocahtk x	0.80	7	01	17$\frac{3}{4}$	17$\frac{5}{8}$	17$\frac{3}{4}$	+$\frac{1}{8}$
Powell		14	8	14$\frac{3}{4}$	14$\frac{3}{4}$	14$\frac{3}{4}$	-$\frac{1}{4}$
PresCas			206	$\frac{7}{16}$	$\frac{13}{32}$	$\frac{13}{32}$	
Pres Life	0.60	12	507	15$\frac{1}{8}$	14$\frac{7}{8}$	14$\frac{7}{8}$	-$\frac{1}{2}$
Presstek		136	1789	74	70$\frac{1}{4}$	73$\frac{1}{2}$	+2$\frac{1}{2}$
PridePt♣		10	3900	21$\frac{1}{8}$	20$\frac{1}{2}$	20$\frac{15}{16}$	+$\frac{1}{16}$
Prbtroni		15	47	18$\frac{1}{2}$	13$\frac{1}{8}$	13$\frac{1}{2}$	
Prod Ops	0.20	34	13	67$\frac{1}{4}$	66	67$\frac{1}{4}$	+1$\frac{1}{4}$
Qualcomm		106	13643	55	53	53$\frac{3}{8}$	-1$\frac{3}{8}$
Qual Food		20	z0	36$\frac{3}{8}$	36$\frac{3}{8}$	36$\frac{3}{8}$	-1$\frac{1}{8}$
Quantum		22	81510	48	38$\frac{3}{4}$	39$\frac{5}{8}$	-2$\frac{5}{8}$
Quickslv		17	1438	27$\frac{1}{2}$	28$\frac{1}{4}$	27$\frac{1}{4}$	+$\frac{7}{8}$
Quintiles		202	1764	62$\frac{1}{4}$	60$\frac{1}{2}$	60$\frac{3}{4}$	-1$\frac{1}{4}$
- R -							
Rainbow♣		12	2840	16$\frac{3}{8}$	15$\frac{7}{8}$	19	-$\frac{3}{8}$
Rallys			579	2$\frac{13}{32}$	2$\frac{3}{8}$	2$\frac{13}{32}$	
Raymond	0.35	18	875	32$\frac{1}{8}$	31$\frac{3}{4}$	32	+$\frac{1}{8}$
RCSB Fin	0.60	14	2912	41	40$\frac{3}{4}$	40$\frac{7}{8}$	-$\frac{1}{16}$
Read-Rite			34829	24	21$\frac{1}{4}$	21$\frac{1}{4}$	-2$\frac{3}{8}$
- W -							
Wang Lab			626	20$\frac{1}{2}$	20$\frac{1}{8}$	20$\frac{1}{8}$	
Warmtech		34	590	11$\frac{5}{8}$	11$\frac{1}{4}$	11$\frac{1}{2}$	+$\frac{1}{4}$
WashMut	1.00	14	17946	54$\frac{1}{2}$	53$\frac{1}{2}$	53$\frac{7}{8}$	-$\frac{3}{16}$
WatsnIndA x	0.31	18	1378	22	24$\frac{5}{8}$	24$\frac{7}{8}$	-$\frac{1}{8}$
Wausau PM	0.25	14	31	18$\frac{1}{2}$	18	18$\frac{1}{2}$	+$\frac{1}{8}$
WD-40	2.48	20	12	57	50	56	-1
Werner Ex	0.10	18	505	20	18$\frac{3}{8}$	20	+$\frac{1}{8}$
Wstam Bac	1.04	16	250	69$\frac{3}{8}$	68$\frac{1}{2}$	68$\frac{1}{2}$	+$\frac{1}{8}$
WstpStA		10	4057	37$\frac{1}{2}$	36$\frac{5}{8}$	37	+$\frac{3}{16}$
Wet SealA		22	1476	30$\frac{1}{16}$	28$\frac{1}{2}$	29$\frac{3}{8}$	+$\frac{1}{2}$
WmsSonoma		42	2636	37$\frac{1}{4}$	36$\frac{1}{4}$	37$\frac{1}{4}$	+$\frac{1}{4}$
Wolohan L x	0.28	12	154	12$\frac{1}{8}$	12$\frac{1}{8}$	12$\frac{1}{8}$	
Worldcm			112238	27$\frac{3}{4}$	26$\frac{3}{4}$	27$\frac{5}{8}$	+$\frac{7}{8}$
Worthgtn	0.48	16	6580	19	18$\frac{3}{8}$	18$\frac{1}{8}$	-$\frac{1}{2}$
WPP ADR	0.10	21	1336	39$\frac{3}{4}$	d39$\frac{1}{8}$	39$\frac{3}{8}$	-$\frac{1}{2}$
Wyman-Gdn	0.40	29	1327	23	22$\frac{3}{8}$	22$\frac{5}{8}$	+$\frac{1}{8}$
- X - Y - Z -							
Xilinx♣		38	14939	57$\frac{1}{2}$	54$\frac{1}{8}$	55$\frac{1}{2}$	-1$\frac{7}{16}$
Xircom		21	6792	15$\frac{1}{2}$	14$\frac{5}{8}$	14$\frac{7}{8}$	-$\frac{3}{8}$
Xoma Corp			1411	5$\frac{1}{16}$	4$\frac{7}{8}$	4$\frac{15}{16}$	+$\frac{1}{8}$
Yellow			1444	19$\frac{5}{8}$	19	19$\frac{1}{8}$	-$\frac{1}{4}$
York Rsch		15	386	7$\frac{11}{16}$	7$\frac{5}{8}$	7$\frac{11}{16}$	-$\frac{1}{4}$
ZionsBan	0.44	17	3982	31$\frac{1}{4}$	30$\frac{1}{2}$	30$\frac{3}{4}$	

EASDAQ

EASDAQ is a fully regulated independent pan European Stock Market focused on high growth companies with international aspirations. The shares of companies on the EASDAQ Stock Market can be bought and sold through EASDAQ Members. EASDAQ Members are made up of Brokers and Banks from across Europe.

Company	Mid price	Change on day	Volume	High	Low	Company	Mid price	Change on day	Volume	High	Low
ActivCard	US$5.375		0	8.25	4.375	Esprit Telecom ADS	US$7.75		0	12.25	5.375
Artwork Systems	US$11		69265	11.125	6.5	Innogenetics	US$11.625	+0.125	44705	12.75	10.375
Chemunex	FFr16		0	18	10	Mercer Internatl.	US$11.125	+0.25	4000	11.75	0.125
Dr Solomon's ADS	US$20.5	-0.875	2006	26.5	16.875	PhTech	US$3.875	-0.125	0	6.125	3.875

Prices for 29/5/97. Please note that mid prices are now used to calculate highs and lows.

Information about EASDAQ can be found on the Web site at: HTTP://WWW.EASDAQ.be
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FINANCIAL TIMES Friday May 30 1997

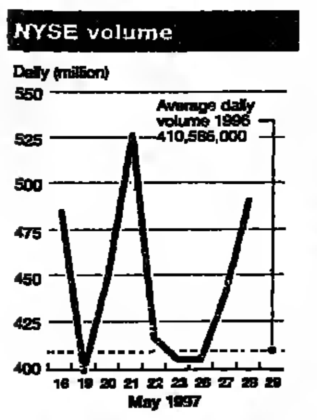
Dow slips as techs gain ground

AMERICAS

US blue-chip shares lost a little ground while technology and smaller company shares continued to bover around recent record levels, *writes Jane Martinson in New York.*

The Dow Jones Industrial Average fell 20.18 at 7337.05 at midsession. Traders said that after a strong rise over tha past week, the blue-chip index needed a spur from further inflation information

NYSE volume



or earnings figures to gain momentum. The more broadly-based S & P 500 fell 1.49 to 845.74.

Bonds provided a little support, falling just below the important 7 per cent yield barrier.

The technology-driven Nasdaq composite index kept above the 1,400 waterline, consolidating this week's outperformance against blue chips. It was up 1.29 at 1,411.47. The Russell 2000, the index of smaller company shares, gained 0.30 to 378.09. Both indices had breached records on eacb trading day of this week.

Mr Michael Metz, the bearish chief investment strategist at Oppenheimer & Co, said the rally in technology and smaller company shares suggested that the tremendous growth in blue-chip shares had started to run out of steam.

"The market is getting a little leery of concentrating on top tier stocks and is really making a speculative play on the rest," he said.

He added that the market was "overdue for a ratber extensive correction and my guess is that it's very close at hand".

IBM caused some of the Dow's trouble with a fall of $1⅜ to $88⅞ after a strong rally in recent weeks and a stock split. Microsoft contributed to Nasdaq's gains and crossed a 52-week high with a $2¼ gain at $128.

Nike hit trouble whicb was shared by other sportswear retailers. The market leader lost $8⅝ or almost 14 per cent at $55 after warning that earnings would be significantly below forecasts. The price had been spiked up on Wednesday following rumours that the fabled investor, Warren Buffet, was about to buy a stake in the company.

Reebok fell $1⅛ to $39⅞, Footstar $⅝ to $22¼ and Converse $⅝ to $20⅝ while Woolworth, the owner of the Foot Locker, dropped $1 to $23¼.

TORONTO moved lower in line with the dull start on Wall Street. It was not belped by book squaring ahead of Monday's federal electioo by a number of leading traders. At noon, the 300 composite index was 22.83 lower at 6,366.20.

Seagram added 40 cents to C$54.25 on news of the $1.4bn disposal of part of its stake in the US media giant, Time Warner, but most leaders lost ground. Banks stayed dull in the wake of the latest quarterly result from the sector.

Latams trade quietly

Where they were not closed for a public holiday, Latin American markets traded quietly.

MEXICO CITY edged ahead on what dealers described as modest bargain bunting. Telmex added 8 centavos to 17.26 pesos and Cemex gained 5 centavos to 28.55 pesos. At midsession, the IPC index was 5.03 higher at 3,911.28.

CARACAS turned in one of the morning's brigbter performances although volume was light. "There is not much action. It has a long weekend feel to it," said one broker. At midsession, the IBC index was up 34.48 or 0.5 per cent at 6,860.34.

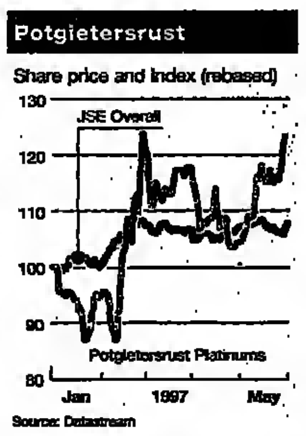
S Africa bounces back

Talk of interest rate cuts following weak GDP figures led to a bounce for Johannesburg, which reversed five days on the downside to end with tbe all share index up 33.9 at 7,074.7.

GDP slippage of 0.8 per cent in the first quarter on a seasonally-adjnsted basis sparked the rate cut hopes, since analysts bad been expecting growth of 2.5 per cent. "*Easier money* now looks on the cards," said one broker.

Another day of heavy buying of platinum shares also underpinned sentiment. Industrials rose 36 to 8,317.6 and the golds index put on 2.8 to 1,181.3. Rustenburg gained R4.25 to R74.50 and Potgietersrust, up R1.20 on Wednesday, added a further 50 cents to R23.40. Among industrials, Barlows rose R1.25 to R47.25.

Potgietersrust



Source: Datastream

Bourses still mired by political concerns

EUROPE

Frencb sbares traded nervously ahead of Sunday's crucial, final round of voting in the general election. But **PARIS** managed to hold on until early afternoon before giving up initial gains and closing with the CAC 40 down 3.93 at 2,579.24.

Dealers said that the flatter tone was a reaction partly to Wednesday's heavy selling and partly to an outbreak of election pragmatism. "If the socialists get in with a working majority that will at least be better than a socialist-communist coalition," said one broker, summing up the mood.

Motors continued to go south. Renault fell FFr3.40 to FFr129.70 for a three-day decline of more than 10 per cent and Michelin sbed FFr8.70 to FFr316.30. Hit bard by political uncertainty over the past few days, Société Genérale rallied FFr17 or 2.8 per cent to FFr630.

GAN gained FFr5 to FFr130 after AGF said it remained intarested in acquiring the company's life insurance business. Eurotunnel hardened 5 centimes to FFr6.45 on group forecasts of a dividend by 2006.

Sommer-Alibert crashed FFr20.70 or 9.9 per cent to *FFr189.50* after the company's plans for a floor-covering merger with Tarkett of Germany resulted in broker downgrades.

ING

Source: Datastream

AMSTERDAM pushed the AEX index down 0.33 to 804.62 for a three-day decline of 1 per cent. ING was the main feature, sliding steeply after top-of-tha-range first-quarter results. There was some initial confusion at the sight of unexpected provisions, but the main culprit looked to be straightforward profit-taking.

Up 22 per cent in fiva weeks ahead of the event, the shares closed off Fl 1.30 or 1.5 per cent at Fl 86.90 in heavy volume with 4.2m traded. Fortis Amev came down in sympathy, losing Fl 1.80 to Fl 80.50.

Among smaller caps, Gucci also looked to be the victim of profit-taking, tumbling Fl 4.10 to Fl 135.80 in the face of strong first quarter sales news.

MADRID continned to react to French and German political concerns, falling 1.5 per cent after a 2.2 per cent drop on Wednesday. Tbe general index closed 8.72 lower at 556.14, as turnover slumped from Pta150.6bn to Pta85.45bn.

Telefónica, one of the biggest winners in the recent bourse uptrend, *fell Pta140* or 3.2 per cent to Pta4,290 while Iberdrola led utilities lower with a fall of Pta75 or 4 per cent at Pta1,785.

ZURICH was dominated by professionals, with little client demand as the SMI index eased 1.0 to 5,132.1.

● **Frankfurt, Vienna, Lisbon and Warsaw were closed for Corpus Christi.**

Daalers said hopes that interest rates would remain low for a longer period and ongoing speculation that the Swiss National Bank might cut tbe discount rate supported financials. However, there were contrasts in insurers: Winterthur rose SFr7 to SFr1,167 after it said it expected a double-digit profit increase in 1997, but Swiss Re saw profit taking and fell SFr14 to SFr1,935.

In industrials, Ciba Specialty Chemicals fell SFr3.50 *to SFr140.50 after* UBS raised its earnings estimates for the company, but called the shares a hold after recent share price fireworka. Saurer, the textiles machinery gronp, rose SFr19 to SFr839 after first tertial figures for 1997.

MILAN moved marginally lower with the Mibtel index off 4 at 12,238. Olivetti dipped L5.10 to L495 after the company denied plans to sell a further stake in its Omnitel unit. Fiat added L19 at L5,620 following a forecast from Mr Cesare Romiti, the group's chairman, that net profits for 1977 would fall plus a move from "neutral" to "accumulate" by Merrill Lynch.

STOCKHOLM took Emu worries on board and fell by almost a percentage point, the general index closing 27.21 lower at 2,812.89.

Skanska fell SKr8 to SKr311 and local sources blamed a tax committee ruling that the construction company would have to pay capital gains tax on its SKr10bn sale of shares in the engineer, Sandvik. Skanska said it would appeal.

In cyclicals, steels and forestries were hurt, the forestry sector falling 1.6 per cent as investors pulled out after favouring it for a couple of weeks.

HELSINKI came out relatively unmarked, the Hex index rising 4.90 to 3,071.24.

One of tha day's star performers was Amer, the sporting goods group, which rose FM4.40 to FM103.40 after a still lossmaking, but improved, first tertial.

FRANKFURT took its Corpus Christi holiday but the screen-based, Ibis market continued to operate and the Dax index recovered 8.78 to 3,635.38.

However, it was not all sweetness and light trading: the sportswear groups, Adidas and Puma, reflected the disappointment with the Nike quarterly figures in the US, falling DM6.25 or 3.75 per cent to DM183.75, and 80 pfg to DM56 respectively.

Sentiment aoured in the eastern Mediteranneau. In **ATHENS**, the general index fell 32.94 or 1.9 per cent to 1,682.88 after a high of 1,729.39, turnover rising to Dr29.5bn, as interbank rates rose in reaction to a softer drachma.

Dealers said that rates could rise further if forex outflows continued.

ISTANBUL, maanwhila, dived 2.3 per cent after an intraday drop of 4.1 per cent on reports that early elections were being discussed at the executive board meeting of the junior coalition partner, the Trua Path Party. The IMKB National-100 index closed 36 lower at 1,529.

Written and edited by William Cochrane and Jeffrey Brown

FTSE Actuaries Share Indices

THE EUROPEAN SERIES

May 29 Hourly changes	Open	10.30	11.00	12.00	13.00	14.00	15.00	Close
FTSE Eurotrack 100	2347.17	2345.85	2345.09	2344.81	2343.54	2343.13	2342.05	2342.35
FTSE Eurotrack 200	2388.10	2385.58	2386.92	2384.26	2383.97	2382.86	2380.68	2381.18

	May 28	May 27	May 23	May 22	May 21
FTSE Eurotrack 100	2352.26	2370.09	2357.18	2369.29	2364.38
FTSE Eurotrack 200	2386.26	2392.37	2381.76	2385.22	2385.14

Base value 1000 (26/10/90); Highday: 100 - 2347.20; 200 - 2388.98 Lowday: 100 - 2341.06 200 - 2380.16. † Partial.

Election relief sparks 2.5% gain for Jakarta

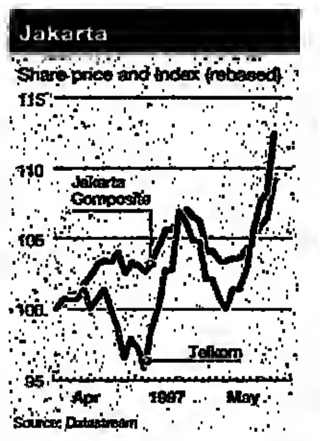
ASIA PACIFIC

Election relief plus a surge for index beavyweight Telkom sent **JAKARTA** shooting ahead, lifting the composite index by 17.00 or 2.5 per cent to 689.50 in beavy volume.

Telkom, witb an index weighting of about 16 per cent, jumped Rp150 or nearly 4 per cent to Rp4,050 on talk that Singapore Telecom had taken a stake and that Telkom itself planned a share placing. The day's total turnover was Rp784bn, up from Rp424bn on Wednesday.

Brokers hailed the election as a success witb polling booths closing in early afternoon and disturbances limited to the troubled territory of East Timor.

Jakarta



Source: Datastream

SINGAPORE ended flat with the Straits Times index up 2.81 at 2,067.17 but a number of Indonesian-linked stocks were active. L&M Group jumped 15 cents or 11 per cent to S$1.52 and United Pulp & Paper gained 17 cents or 14 per cent to S$1.35.

TOKYO took profits and tben stabilised: a sharp morning plunge in the dollar against the yen failed to encourage investors to sell blue-chip exporters, but in tbe afternoon the dollar's recovery to Y116 belped many stocks recoup losses, *writes Gwen Robinson.*

The Nikkei 225 average slipped 39.11 to 20,312.23 after moving between 20,125.11 and 20,366.84. At the close, some manufacturers were still suffering from news that Japan's industrial production in April declined by 0.4 per cent from the previous month.

Brokers fell on reports *tbat prosecutors might* arrest Mr Hideo Sakamaki, tbe former president of Nomura Securities, in the widening scandal over Nomura's illegal trading activities.

Volume edged down from 374m shares to an estimated 364m. Declines led advances by 605 to 454, witb 168 unchanged. The Topix index of all first-section stocks rose 0.09 to 1,503.34 and the capital-weighted Nikkei 300 shed 0.14 to 290.82.

Bandai and Sega retreated in the wake of Tuesday's announcement that the companies will scrap tbeir planned merger, in spite of Sega's strong earnings report on Wednesday. Bandai, which posted poor results on Wednesday, fell Y100 to Y2,570 and Sega slid Y90 to Y3,690.

Losses among blue-chip exporters demonstrated the market's anxiety about further exchange-rate turbulence. Sony fell Y60 to Y9,840, Toyota Y70 to Y3,450 and Honda Y50 to Y3,540.

However, semicondnctor-related issues continued to benefit from strong earnings outlooks. Advantest jumped Y770 to Y8,000 and Tokyo Electron Y490 to Y5,710. TDK added Y260 to Y9,050.

Brokers fell 1.6 per cent as a group on renewed concerns abont the widening scandal around Nomura. Nomura fell Y50 to Y1,440, *Yamaichi Y6 to Y331 and* Nikko Y7 to Y698.

Shinko Electric, the prepaid card maker which fell on profit-taking on Wednesday following big gains on reports that NTT would use the card in a new pay-phone system, rose Y31 to Y554 as the day's most active issue. Banks rose on short covering by foreign investors. Sumitomo Bank added Y20 to Y1,650 and Sanwa Bank Y60 to Y1,520.

In Osaka, the OSE average added 124.39 to 21,073.14 and volume rose to 17.2m shares. in London, the ISE/Nikkei 50 index rose 4.28 to 1,589.19.

SYDNEY scraped to another record high, mostly by courtesy of BHP which rose 21 cents to A$18.60, inflnenced by action in May call options at A$18.50 and by some switching from the rival miner, CRA, which fell 30 cents to A$21.50.

The All Ordinaries index rose 5.40 to 2,590.60 in turnover of A$942.76m. Coles Mayer, Australia's largest retailer, fell 23 cents to A$6.07 in high volume of 6.1m shares after its annual analysts' meeting on Wednesday generated strong selling.

MANILA rose 1.3 per cent on blue-chip buying ahead of the release of first-quarter GNP figures later in the day. The composite index closed 35.94 higher at 2,758.61.

A cut in the Philippine Central Bank's overnight rate impacted on longer-term fixed interest securities. First-quarter GNP growth came ont at 6.1 per cent against a revised 6.9 per cent a year earlier.

HONG KONG moved lower as traders focused almost exclusively on the first day of trading in red chip newcomer, Beijing Enterprises. The Hang Seng index ended off 139.91 or 1 per cent at 14,416.57. Beijing Enterprises, which set a record when it was 1,276 times subscribed, ended at HK$40.20, against a flotation price of HK$12.48.

TAIPEI succumbed to late profit-taking in electronics to close off 60.81 at 7,997.65 on the weighted index after racking up a gain of nearly 70 points at one stage during the session. Turnover was said to be moderate at T$110.2bn.

The electronics sector, buoyed lately by high-tech gains on Wall Street, rose 3.3 per cent in early trading but finished just 0.3 per cent ahead.

BANGKOK closed lower ahead of today's resumption of trading in Finance One, the troubled finance group. Brokers said the dealings restart was widely expected to drag the market lower at the outset today. The SET Index ended down 4.66 or 0.8 per cent at 558.17 on modest turnover of Bt2.6bn.

BOMBAY rallied with the BSE 30 index 38.0 higher at 3,723.31 as strong bidding by foreign funds reversed initial weakness. Action focused on the market leader, Reliance Industrias, which rose Rs13.25 or 4.7 per cent to Rs296.25 in 7.04m shares.

Disappointing company results caused tha weak start. Colgate-Palmolive (India) ended Rs2.75 down at Rs279.50 on little change to net profits. However, the engineering company, Larsen & Toubro rose Rs2.50 to Rs206.25 ahead of results due later in the day.

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FTSE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The indices are compiled by FTSE International and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries. NatWest Securities Ltd. was a co-founder of the indices.

NATIONAL AND REGIONAL MARKETS	WEDNESDAY MAY 28 1997								TUESDAY MAY 27 1997					DOLLAR INDEX		
Figures in parentheses show number of lines of stock	US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	52 week High	52 week Low	Year ago (approx)
Australia (76)	231.89	0.0	209.85	169.22	204.56	202.18	0.1	3.79	231.87	211.04	170.61	205.08	201.81	234.37	188.44	206.86
Austria (24)	199.06	-0.1	180.14	145.26	175.60	175.54	-0.4	1.87	199.29	181.39	146.69	176.26	173.20	200.52	174.70	190.74
Belgium (26)	251.01	-0.7	227.15	183.17	221.43	216.82	-0.9	3.30	252.79	230.07	186.32	223.58	218.87	254.98	206.70	210.25
Brazil (30)	267.81	1.8	242.36	195.43	236.24	528.94	1.6	1.35	263.70	240.00	194.36	233.22	520.72	267.81	162.65	170.82
Canada (113)	205.29	-1.1	185.78	149.81	181.09	205.44	-0.9	1.69	207.48	188.84	152.93	183.50	207.34	209.45	154.12	163.38
Denmark (32)	384.24	-0.2	347.73	280.40	338.95	337.83	-0.5	1.50	385.17	350.56	283.90	340.65	339.45	390.15	292.69	295.18
Finland (26)	273.08	-0.8	247.13	199.28	240.90	293.50	-1.0	1.55	275.61	250.85	203.15	243.76	296.46	279.84	186.97	194.63
France (91)	215.35	-3.2	194.89	157.15	189.97	193.76	-3.3	2.92	222.59	202.59	164.06	196.86	200.37	232.34	186.94	195.19
Germany (59)	214.73	-0.8	194.33	156.70	189.43	189.43	-1.0	1.50	216.35	196.91	159.46	191.34	191.34	216.90	167.18	167.87
Hong Kong (66)	514.47	-0.2	465.57	375.43	453.83	511.45	-0.1	2.95	515.29	469.00	379.81	455.74	512.10	517.94	407.55	435.71
Indonesia (27)	232.60	0.9	210.50	169.74	205.19	348.45	0.9	1.64	230.63	209.90	169.98	203.97	345.28	-	-	-
Ireland (16)	348.18	0.3	315.09	254.08	307.14	324.24	0.1	3.01	347.18	316.00	255.91	307.07	323.86	350.96	270.08	276.31
Italy (59)	88.94	-1.0	80.49	64.90	78.46	111.73	-0.7	2.25	89.84	81.77	66.22	78.45	112.54	98.32	73.26	82.35
Japan (485)	133.34	2.3	120.67	97.31	117.63	97.31	1.3	0.61	130.31	118.60	96.05	115.25	96.05	158.25	107.57	154.24
Malaysia (107)	532.48	1.1	481.86	388.58	469.71	514.93	0.8	1.32	526.81	479.48	388.30	465.93	510.76	660.85	510.10	556.86
Mexico (27)	1405.17	-1.1	1271.88	1025.41	1239.58	12151.67	-1.3	1.24	1420.35	1292.74	1046.90	1256.20	12313.98	1445.68	1110.35	1309.82
Netherland (19)	378.01	0.3	342.09	275.85	333.46	329.43	0.1	2.38	377.04	343.18	277.81	333.47	329.25	382.16	279.88	295.60
New Zealand (14)	89.41	0.7	80.92	65.25	78.87	68.79	0.7	4.18	86.83	80.85	65.48	78.57	68.28	95.60	75.94	78.61
Norway (41)	315.26	0.5	285.30	230.06	278.11	302.56	0.3	2.04	313.71	285.52	231.23	277.45	301.57	321.23	246.04	246.57
Philippines (22)	167.67	1.7	151.74	122.36	147.81	220.37	1.7	0.85	164.90	150.08	121.54	145.84	216.74	-	-	-
Singapore (42)	393.15	0.4	355.79	286.90	346.81	259.03	0.3	1.16	391.64	356.45	288.67	346.38	258.12	448.01	360.08	419.48
South Africa (44)	351.95	-0.9	318.50	256.83	310.47	344.08	-0.6	2.48	353.96	322.16	260.90	313.05	346.28	370.12	301.49	354.39
Spain (35)	256.50	-2.3	232.12	187.18	226.27	279.18	-2.2	2.34	262.42	238.84	193.42	232.09	285.31	262.42	171.91	179.36
Sweden (49)	456.31	-0.9	412.95	332.99	402.53	519.22	-0.5	1.99	460.57	419.18	339.48	407.35	521.59	467.61	334.35	348.98
Switzerland (35)	293.27	-0.9	265.40	214.01	258.71	257.38	-1.0	1.30	295.88	269.28	218.07	261.67	260.10	299.90	229.36	230.82
Thailand (43)	61.89	-1.9	56.01	45.16	54.60	61.96	-1.9	5.04	63.05	57.39	46.48	55.77	63.18	180.09	59.78	178.79
United Kingdom (211)	302.30	0.5	273.57	220.60	266.67	273.57	-0.1	3.64	300.81	273.79	221.72	266.05	273.79	303.18	229.63	230.72
USA (651)	342.98	-0.3	310.38	250.29	302.56	342.98	-0.3	1.78	343.87	312.97	253.45	304.13	343.87	343.87	254.79	273.74
Americas (821)	313.87	-0.3	284.04	229.04	276.87	264.32	-0.3	1.78	314.74	286.46	231.99	278.37	265.05	314.74	233.09	250.14
Europe (725)	262.16	-0.9	237.25	191.31	231.27	241.08	-0.8	2.64	263.66	239.98	194.34	233.18	243.10	264.79	204.71	207.79
Nordic (150)	393.89	-0.7	356.45	287.44	347.46	386.65	-0.5	1.86	396.54	360.91	292.28	350.71	398.41	401.56	291.46	299.24
Pacific Basin (882)	151.86	1.8	137.24	110.67	133.78	111.44	1.0	1.28	148.97	135.59	109.81	131.78	110.30	170.85	127.16	167.62
Euro-Pacific (1607)	197.77	0.5	178.97	144.32	174.46	160.40	0.0	2.03	196.81	179.13	145.06	174.07	160.39	198.18	173.55	184.26
North America (794)	334.56	-0.3	302.76	244.14	295.13	333.88	-0.3	1.78	335.55	305.40	247.32	296.77	334.85	335.55	248.85	266.90
Europe Ex. UK (514)	234.85	-1.2	212.53	171.38	207.17	218.25	-1.2	2.08	237.62	216.27	175.14	210.18	220.99	239.96	185.65	190.10
Pacific Ex. Japan (397)	309.66	0.2	280.24	225.97	273.17	270.86	0.2	2.75	309.07	281.30	227.81	273.35	270.33	320.65	269.97	291.48
World Ex. US (1821)	201.04	0.4	181.94	146.71	177.35	166.68	0.0	2.01	200.24	182.25	147.59	177.10	166.75	201.44	176.84	185.63
World Ex. UK (2261)	240.77	0.1	217.88	175.70	212.39	211.59	-0.1	1.72	240.94	219.02	177.37	212.83	211.90	241.02	199.58	211.12
World Ex. Japan (1987)	304.03	-0.3	275.14	221.87	268.20	293.16	-0.4	2.13	305.09	277.68	224.87	269.83	294.42	305.11	233.10	245.30
The World Index (2472)	246.03	0.1	222.65	179.54	217.04	217.26	-0.1	1.91	245.90	223.72	181.17	217.39	217.57	246.21	202.32	212.93

 CONSTITUENT CHANGES WITH EFFECT 30/5/97: Deletions: Stone Consolidated Corp. (Canada) and Morgan Stanley (USA). Name changes: Abitibi-Price to Abitibi-Consolidated (Canada) and Dean Witter to Morgan Stanley Dean Witter Discover (USA). CONSTITUENT CHANGES WITH EFFECT 2/6/97: Addition: Gallaher Group (Medium-Small Cap) (UK). Name change: American Brands to Fortune Brands (USA). Latest prices were unavailable for this edition.